



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Tacoma School District No. 10

Pierce County

For the period September 1, 2013 through August 31, 2014

Published May 26, 2015

Report No. 1014342





Washington State Auditor

May 26, 2015

Board of Directors
Tacoma School District No. 10
Tacoma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Tacoma School District No. 10's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in black ink, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Tacoma School District No. 10
Pierce County
September 1, 2013 through August 31, 2014

The results of our audit of Tacoma School District No. 10 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.555	Child Nutrition Cluster - National School Lunch Program
10.553	Child Nutrition Cluster - School Breakfast Program
10.559	Child Nutrition Cluster - Summer Food Service Program
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.377	School Improvement Grants Cluster - School Improvement Grants
84.388	ARRA - School Improvement Grants Cluster - School Improvement Grants (Recovery Act)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$1,037,307.

The District qualified as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Tacoma School District No. 10
Pierce County
September 1, 2013 through August 31, 2014**

Board of Directors
Tacoma School District No. 10
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tacoma School District No. 10, Pierce County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 26, 2015. Our report includes a reference to other auditors who audited the financial statements of The Sound Partnership, as described in our report on the District's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of The Sound Partnership were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Sound Partnership.

As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and the report of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of

the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

February 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Tacoma School District No. 10
Pierce County
September 1, 2013 through August 31, 2014**

Board of Directors
Tacoma School District No. 10
Tacoma, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Tacoma School District No. 10, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke at the end.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Tacoma School District No. 10 Pierce County September 1, 2013 through August 31, 2014

Board of Directors
Tacoma School District No. 10
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tacoma School District No. 10, Pierce County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Sound Partnership, which represents 95 percent, 95 percent and 99 percent, respectively, of the assets, net assets and revenues of the aggregate remaining fund information. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Sound Partnership, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform

the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Sound Partnership were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Tacoma School District No. 10, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 27, budgetary comparison information on pages 66 through 67 and information on postemployment benefits other than

pensions on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first name "Jan" and last name "Jutte" clearly legible.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

February 26, 2015

FINANCIAL SECTION

Tacoma School District No. 10
Pierce County
September 1, 2013 through August 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2014

Statement of Net Position – Proprietary Fund (The Sound Partnership) – 2014

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund (The Sound Partnership) – 2014

Statement of Cash Flows – Proprietary Fund (The Sound Partnership) – 2014

Statement of Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2014

Budgetary Comparison Schedule – Special Revenue Fund (Associated Student Body Fund) – 2014

Actuarial Valuation of Postemployment Benefits Other Than Pension – Schedule of Funding Progress – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Tacoma School District's financial performance provides an overview of the district's financial activities for the fiscal year ended August 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information presented in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The district's total net position for governmental activities as of August 31, 2014, was \$551.1M, an increase of \$5.3M from 2012-13. Capital assets increased by \$26.3M, current and other assets decreased by \$31.9M, total assets decreased by \$5.6M, and liabilities/deferred inflows of resources decreased by \$11.7M from the prior year.
- During the year, the district had revenues of \$392.6M and expenses of \$387.3M incurred for all governmental activities, resulting in a corresponding increase in the district's net position by \$5.3M.
- At the end of the current fiscal year, the district's governmental funds reported a combined ending fund balance of \$122.4M; a decrease of \$35.6M from the prior year. The general fund's total fund balance was \$32.5M; a decrease of \$1.1M from the previous year. Approximately \$14.2M is available for spending at the district's discretion (assigned fund balance).
- Tacoma voters overwhelming passed two levy measures with a 67 percent approval in February, 2014. Proposition 1 was the replacement of the expiring Educational Programs and Operations Levy, which will provide approximately \$86M in local property tax support to the district's general fund each year over the next 4 years (2015-2018). Proposition 2, the Technology Improvements and Upgrade Levy will support the Capital Projects Fund's technology implementations over the next 4 years with \$10M each year.
- The district and the Tacoma Education Association which bargains on behalf of teachers, office professional, and professional technical staff entered into a five year labor agreement which runs through August 31, 2019.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This report consists of three parts: an introductory section, a financial section, and a statistical section. The financial section contains the independent auditor's report, management's discussion and analysis, the basic financial statements and related notes to the financial statements.

The basic financial statements consist of a series of statements that present different views of the district:

- The first two statements (*statement of net position and statement of activities*) are *district-wide financial statements* that provide both short-term and long-term information about the district's overall financial status as a whole.
- The *governmental fund financial statements* focus on *individual* parts of the district, and report the district's operations in more detail than the district-wide statements. These governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- The remaining statements provide financial information about activities for which the district acts solely as a trustee for the benefit of those outside of the district.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of fund activity to the district's budget for the year.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

Our analysis of the district as a whole begins in the *government-wide financial statement* section. Is the district as a whole better off or worse off as a result of the year's activities? The *statement of net position* and the *statement of activities* report information about the district as a whole and about its activities in a way that helps answer this question. The financial statements of the district present an improved financial position as reflected in the *statement of net position*. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash was received or paid.

These statements report the district's net position and changes in them. The district's net position (the difference between assets and liabilities/deferred inflows) may be viewed as one way to measure the district's financial health, or financial position. Over time, increases or decreases in the district's net position are one indicator of whether its financial health is improving or deteriorating. One should consider other non-financial factors however, such as changes in the district's property tax base and the student enrollment to assess the overall health of the district.

In the *statement of net position* and the *statement of activities*, governmental activities are presented. The district's basic services, including the general, associated student body, debt service, and capital projects funds are reported here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Fund Financial Statements

Our analysis of the district's major funds begins in the Governmental Fund Financial Statements section. The governmental fund financial statements provide detailed information about the most significant funds, not the district as a whole. Some funds are required to be established by state law. The district has governmental funds and a proprietary fund, The Sound Partnership.

Governmental funds, presented in the Governmental Fund Financial Statement section of this report, focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district's general education and support operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliations on Schedule 3A and Schedule 4A of the basic financial statements and in Note 10 of the notes to the financial statements.

Proprietary Fund – The Sound Partnership is accounted for in the internal service fund in conformity with GASB Statement No. 10 (Risk Financing).

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The district is the trustee, or fiduciary, for individuals, private organizations and other governments, for scholarships, and other specific purposes. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position under the fiduciary financial statement section. These activities are excluded from the district's other financial statements because the district cannot use these assets to finance its operations. The district is responsible for ensuring the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE (Government-Wide Financial Statements)

Net position may serve as a useful indicator of a government's financial position. The Tacoma School District's assets exceeded liabilities by \$551.1M at the end of the fiscal, August 31, 2014.

The largest portion of the net position at \$489.8 M is net investment in capital assets (e.g., land, building, and equipment), less any related outstanding debt used to acquire those assets. The remainder consists of an amount restricted for capital projects, debt services, associated student body fund, and other proposes, with \$32.4M unrestricted. The district's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The increase in total net position for the year was \$5.3M. Key elements of this increase are as follows:

Tacoma School District's Net Position As of August 31

	Governmental Activities		
	2014	2013	Changes
ASSETS			
Current and Other Assets	\$ 228,261,324	\$ 260,195,694	\$(31,934,370)
Capital Assets	739,140,558	712,793,344	26,347,214
Total Assets	967,401,882	972,989,038	(5,587,156)
LIABILITIES & DEFERRED INFLOWS OF RESOURCES			
Long-Term Debt Outstanding	382,210,156	396,664,900	(14,454,744)
Other Liabilities	33,265,586	30,555,552	2,710,034
Unavailable Revenue	846,160	-	846,160
Total Liabilities & Deferred Inflows	416,321,902	427,220,452	(10,898,550)
NET POSITION			
Invested in Capital Assets, Net of Debt	489,838,116	474,767,679	15,070,437
Restricted	28,833,686	30,228,711	(1,395,025)
Unrestricted	32,408,178	40,772,196	(8,364,018)
TOTAL NET POSITION	\$ 551,079,980	\$ 545,768,586	\$ 5,311,394

The restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted *net position* may be used to meet the district's ongoing obligations to citizens and creditors.

Governmental Activities

The 2013-14 revenues of \$392.6M exceeded expenditures by \$5.3M. The 2012-13 revenues exceeded the expenditures by \$1.6M. Key elements of the increases in revenues and decreases in expenditures are as follows.

Governmental Activities Changes in Net Position

PRIMARY GOVERNMENT

As of August 31

	2014	2013	Changes
REVENUES			
Program Revenues:			
Charges for Services	\$ 11,284,377	\$ 10,753,010	531,367
Operating Grants and Contributions	115,572,241	109,133,062	6,439,179
Capital Grants and Contributions	1,653,062	671,852	981,210
General Revenues:			
Property Taxes	134,008,007	131,930,185	2,077,822
Interest and Investment Earnings	245,630	153,864	91,766
Unallocated Revenues	129,796,551	118,011,453	11,785,098
TOTAL REVENUES	392,559,868	370,653,425	21,906,442
PROGRAM EXPENSES:			
Regular Instruction	202,869,927	200,132,388	2,737,539
Federal Stimulus	176,527	2,712,607	(2,536,080)
Special Instruction	46,538,041	45,199,345	1,338,696
Career & Technical Instruction	11,320,711	11,199,076	121,635
Compensatory Instruction	31,392,881	26,882,336	4,510,545
Other Instructional Programs	5,545,242	4,285,329	1,259,913
Community Services	536,295	417,267	119,028
Support Services	76,924,636	73,960,390	2,964,246
Extracurricular Activities	2,018,381	2,033,416	(15,035)
Debt Payment	9,925,834	2,240,457	7,685,377
TOTAL EXPENSES	387,248,476	369,062,612	18,185,864
INCREASE (DECREASE) IN NET ASSETS	5,311,394	1,590,813	3,720,581
NET ASSETS - 9/1/13	545,768,586	544,177,772	1,590,814
NET ASSETS - 8/31/14	\$ 551,079,980	\$ 545,768,586	\$ 5,311,394

The following table presents the cost of each of the district's largest programs – regular instruction, special instruction, career & technical instruction, compensatory instruction, other instructional programs, and support services - as well as each program's net cost (total cost less revenues generated by the activities). The net cost column shows the financial impact by each of these functions.

Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2013-14	2012-13	2013-14	2012-13
Regular Instruction	202,869,927	200,132,388	(183,791,269)	(181,936,434)
Federal Stimulus	176,527	2,712,607	(30,494)	(67,295)
Special Instruction	46,538,041	45,199,346	(9,321,377)	(9,396,949)
Career & Tech Instruction	11,320,711	11,199,076	1,194,313	824,080
Compensatory Instruction	31,392,881	26,882,336	(599,402)	(1,297,681)
Other Instructional Programs	5,545,242	4,285,329	(2,664,827)	(1,452,834)
Community Services	536,295	417,267	269,184	256,660
Support Services	76,924,636	73,960,390	(53,841,721)	(53,263,020)
Extracurricular Activities	2,018,381	2,033,416	(27,369)	69,241
Debt payments	9,925,834	2,240,457	(9,925,834)	(2,240,457)
TOTALS	\$387,248,476	\$369,062,612	\$(258,738,796)	\$(248,504,689)

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the district's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Thus, unreserved fund balance may serve as a useful measure of the district's net resources available for spending at the end of the fiscal year.

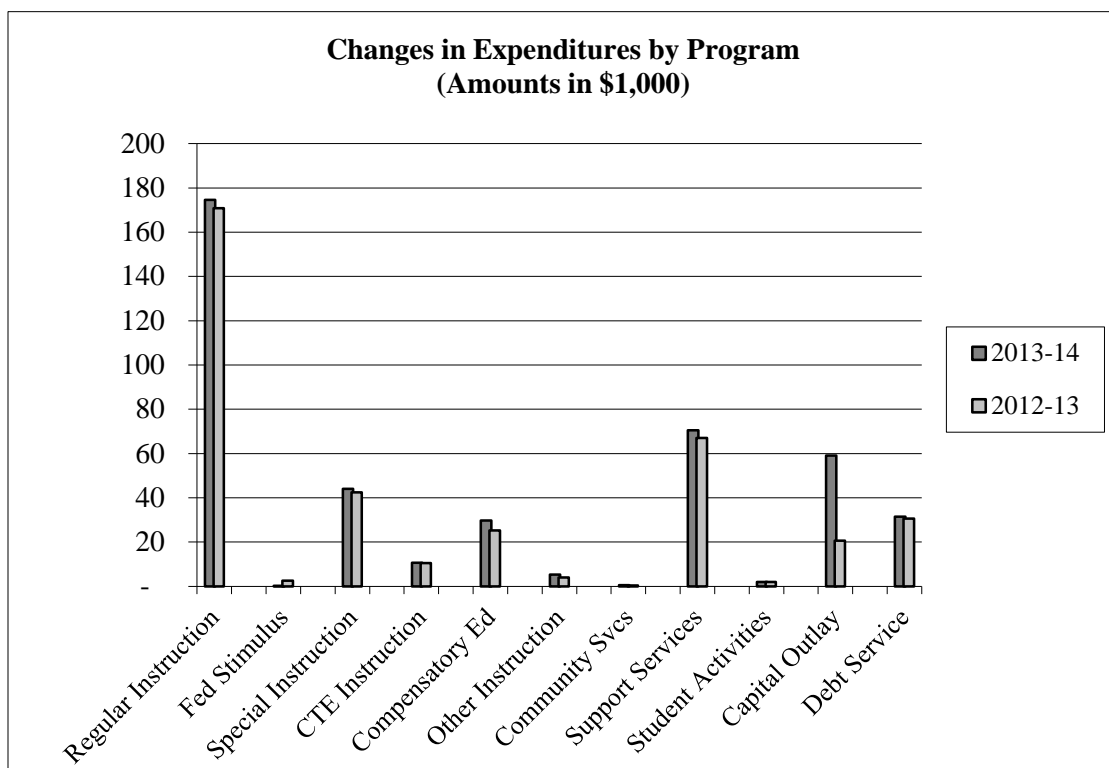
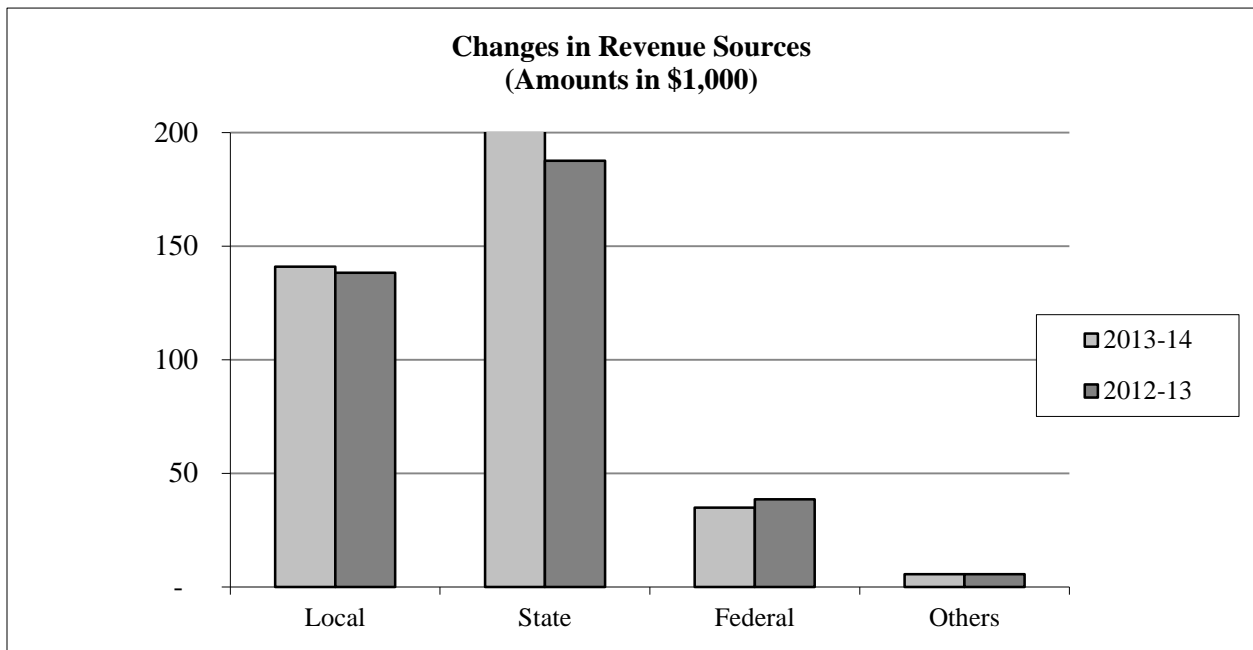
As the district completed the fiscal year, its governmental funds (as presented in the balance sheets under the governmental financial statement section) reported a combined fund balance of \$122.4M, a decrease of \$35.6M over the prior year. This change is the result of the following factors:

- The fund balance in the General Fund decreased by \$1.1M. While the district had planned for its reserves to drop by more than this amount, additional revenues (above budget) were recorded in property taxes, regular state apportionment, and state local levy assistance (LEA). The regular state apportionment revenue increase was due to student enrollment coming in above projections, and property tax collections were more favorable than original assumptions. Labor (salaries and benefits) costs and spending for supplies and materials were lower than anticipated. The combination of increased revenues and expenditures below forecast caused the fund balance to be above the amount forecast for the year. Fifty-six percent of the fund balance is in the nonspendable, restricted, or committed categories.
- The fund balance in the Special Revenue Fund (ASB) decreased by \$27K. All secondary schools and most elementary schools had activity in their ASB funds in 2013-14.
- The fund balance in the Debt Service Fund increased by \$2.1M from the prior year. The expenditure amounts are set by the payment schedules on the district's outstanding bonds. Revenues are generated by setting an annual property tax rate at a level which will generate enough funds to repay the debt. The ending fund balance is higher than the prior year, and the district's cash flow projections indicate this reserve is adequate to meet future needs.
- The fund balance in the Capital Projects Fund decreased by \$36.5M. The district passed a \$500M bond authority for capital construction projects in February 2013. Virtually all of the fund balance is in restricted categories.

- The fund balance in the Transportation Vehicle Fund decreased by \$153K. Six new buses were purchased during 2013-14. Funding for these buses is provided from the state through its bus depreciation schedule and interest earnings.

The following table presents a summary of the governmental fund's revenues and expenditures for 2013-14 and the amounts and percentages of increases and decreases in relation to the prior year. A graphical presentation of revenues and expenditures follows.

Changes in Revenues and Expenditures				
Governmental Funds				
Revenue Source	2013-14 Amount	Percent of Total	Increase (Decrease) Over 2012-13	Percent Increase (Decrease)
Local Taxes & Non-taxes	140,935,557	35.96%	2,628,800	1.90%
State Revenues	210,509,208	53.71%	22,913,164	12.21%
Federal Revenues	34,852,232	8.89%	(3,684,273)	-9.56%
Others	5,646,762	1.44%	108,679	1.96%
Total	391,943,759	100.00%	21,966,370	5.94%
Expenditures				
Regular Instruction	174,589,139	40.82%	3,817,402	2.24%
Federal Stimulus	154,555	0.04%	(2,395,635)	0.00%
Special Instruction	43,958,775	10.28%	1,468,065	3.46%
Career & Tech Instruction	10,676,618	2.50%	173,072	1.65%
Compensatory Instruction	29,643,976	6.93%	4,379,706	17.34%
Other Instructional Programs	5,225,905	1.22%	1,205,550	29.99%
Community Services	517,033	0.12%	118,883	29.86%
Support Services	70,465,347	16.47%	3,460,072	5.16%
Extracurricular Activities	2,018,381	0.47%	(2,597)	-0.13%
Capital Outlay	59,058,149	13.81%	38,421,238	186.18%
Debt Service	31,409,429	7.34%	854,611	2.80%
Total	\$ 427,717,307	100.00%	\$ 51,500,367	13.69%



General Fund Budgetary Highlights

Appropriations are a prerequisite to expenditures in the governmental funds. Appropriations lapse at the end of the fiscal year. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. There were no budget revisions during 2013-14.

The beginning fund balance in 2013-14 was \$33.6M as reported in the Required Supplemental Information, Schedule A-1.

Revenues were \$2.97M below budget, and expenditures were \$6.73M under budget. Washington State statutes establish expenditure budgets as absolute expenditure limits, encouraging contingency budgeting.

Property tax revenues came in over \$1.4M above budget, and local tax collections were \$317K less than the prior year. The district received \$163.7 in general state apportionment revenues in 2013-14, an increase of \$14.1M over 2012-13. The State's school model formula was adjusted as the legislature copes with the McCleary ruling compliance targets set by the courts, and this resulted in increased the funds flowing to school districts. The average annual student enrollment came in 646 FTE above budget, and that was another factor contributing to the increase in state apportionment revenues. Federal revenues from grant sources were \$1.3M below budget, and \$3.6M less than the prior year – some grant programs did not spend their full authority, and the grants carried over into the next year; the nutrition services program's student participation decreased, resulting in \$303K less in revenues from that source than planned.

Expenditures in the general fund were less than planned. Certificated and classified salaries and benefits were underspent as a result of unfilled positions, and \$566K in unspent curriculum adoption and support materials contributed to the lower than expected costs. Purchased services and travel costs were above budget; capital outlay costs were above budget as the district moved from a model which leased copiers to one which purchased the equipment. The district had also budgeted capacity (both revenue and expenditure) for state and federal grants that did not materialize.

Other financing sources were \$1.57M, \$68K above budget. The district had a planned transfer of \$1.5M from the capital projects fund to the general fund for district-wide technology software licenses as permitted under state statute, and the remaining amount represents surplus equipment proceeds (\$68K).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2013-14, the district had \$739.1 invested in a broad range of capital assets, including technology equipment and school buildings. This amount represents a net increase (including additions and deletions) of \$26.3 over last year.

Capital Assets As of August 31, 2014

Asset Type	2013-14 Governmental Activities		
	Historical Cost	Accumulated Depreciation	NET
Land	42,745,423	-	42,745,423
Building and Improvements	945,965,003	(289,448,421)	656,516,582
Equipment	39,923,964	(35,984,607)	3,939,357
Construction-in-progress	35,939,196	-	35,939,196
TOTALS	\$ 1,064,573,586	\$ (325,433,028)	\$ 739,140,558

Washington Elementary was re-opened in the fall of 2014 after a major modernization, and while the in-service date for depreciation will be September 1, 2014 (the date of occupancy), it remains under construction in progress (CIP) as the final punch list items are completed. The district purchased a multi-story downtown office building and parking garage for \$7.6M which will eventually house the School of the Arts programs and eliminate the need for leased space. Additional information can be found in the Notes to the Financial Statements, Note 4.

Construction in Progress - Changes from Prior Year:

Elementary Schools	\$ 21,968,654
Middle Schools	1,061,314
High Schools	<u>4,719,772</u>
	\$ 27,749,740

The district's 2013-14 fiscal year budget for capital projects fund expenditures was set at \$59.5M. Planning and design phases are underway for the Science & Math Institute, McCarver Elementary, Wilson High School Phase 2, and Stewart Middle School modernization construction projects. McCarver and Stewart are both historical buildings, and construction is scheduled to start on both school sites in the summer of 2015.

These projects and others are financed through the 2001 (\$450M) and 2013 (\$500M) capital bonds approved by voters. Additional information on capital assets is included in the Notes to the Financial Statements, Note 5.

Debt

At year end, the district owed \$300.3M in outstanding bonds, versus \$319.9M last year – a decrease of \$19.6M. This debt is secured by a pledge of the full faith and credit of the district. On October 24, 2014, the district received an underlying rating of Aa2 and an enhanced rating of Aa1 from Moody's Investors Service. Standard & Poor's assigned its AA- unenhanced rating to the district on October 27, 2014; and issued a long term rating of AA+. The credit ratings for the district haven't changed since the last review.

Outstanding Debt at Year-End

Governmental Activities	2013-14	2012-13	Increase/(Decrease)	
2003 UTGO Bonds	-	9,000,000	(9,000,000)	-100.00%
2005 Refunding of 2001 UTGO	122,965,000	133,130,000	(10,165,000)	-7.64%
2012 Refunding of the 03, 05, 05A UTGO's	78,475,000	8,905,000	(430,000)	-0.54%
2013 Bond Anticipation Note	98,865,000	98,865,000	-	0.00%
TOTALS	300,305,000	319,900,000	(19,595,000)	-6.13%

NEXT YEAR'S BUDGET AND RATES

The district's 2014-15 expenditure budgets for governmental funds were set at over \$581.8M. The 2014 property tax rate decreased from \$7.92 to \$7.76 per thousand dollars of assessed value for the amounts collected in the general fund, capital projects fund, and debt service fund. Total assessed value increased by over 3 percent between 2013 and 2014, and property values increased from \$16.86B to \$17.44B over

the calendar year. Property values continue to improve in 2015, and the increased assessed value was at a point that the district could move the Bond Anticipation Note into permanent debt and still maintain its targeted rates per \$1,000 of assessed valuation.

ECONOMIC FACTORS

The district serves the City of Tacoma and small outlying areas in Pierce County. Pierce County's economy is expected to continue to grow slowly, as it has for the last several consecutive quarters. The Pierce County Economic Index is forecast to end 2014 up by 0.26 percent for the year, and forecasts for 2015 show annualized gains of 0.3 percent.

Growth continues to be sluggish. Underlying this is a lackluster increase in employment, and while the unemployment rate in the area has fallen, so too has labor force participation. Joint Base Lewis McChord (JBLM) may see another 11,000 soldier and civilian positions cut by 2020. The overall impact of such a reduction in force is estimated to be a 1.9 percent decrease in the economic index. Another negative trend is the shift toward more service sector jobs. High-income jobs are being replaced with relatively low-income jobs, limiting the growth in the county's personal income per capita.

The Grand Alliance's move to the Port of Tacoma in 2012 has helped enhance economic activity related to the port, and the U.S. Open being held at the Chambers Bay public golf course is expected to have an economic impact of about \$100M to the area in June 2015. King County, and its booming economy, continues to be an important source of employment for residents of Pierce County.

The overall trend in retail sales is expected to remain positive, though growth was expected to slow in 2014. From 2013 to 2014, retail sales were predicted to grow 4.2 percent and reach \$5.9B in 2009 prices. This still falls below the \$6.4B mark attained in 2007, however, there was a strong resurgence in 2013 followed by solid numbers in 2014. Growth in retail sales for 2015 is expected to be slightly lower.

Income growth in 2013 was negligible, with total real personal income increasing by only \$154M, or 0.5 percent. The estimate for 2014 is about the same, with personal income rising by 0.9 percent. The 2015 forecast is slight better at a 0.5 percent growth in total personal income.

Pierce County's housing activity index measures new listings and closed sales activity. This index is forecast to regain pre-bubble levels, circa 2003, by the end of 2015, signaling a return to what might be considered a normal market. The housing affordability index compares what a median income family could afford to the average value of single-family residences. This index is expected to fall to approximately 145 by the fourth quarter of 2015, which is comparable to its value in 1998, which shows housing is relatively inexpensive in the area. On the commercial side of the real estate market, strength continues in the warehouse and distribution sector. Vacancy rates for office space remains nearly unchanged at 12.4 percent.

In January 2012, the Washington State Supreme Court ruled unanimously in its McCleary decision that the State of Washington is violating the constitutional rights of children by failing to live up to its "paramount duty" to amply fund the education of all K-12 students. The court ordered the Legislature to make steady, real and measureable progress each year and to fully fund K-12 public education by 2018. The Court has ordered the State to demonstrate and report on its progress every year.

In September 2014, the Court ruled the state was in contempt of court for failing to comply with a previous court order, which required the state to submit a plan for fully implementing funding for the prototypical school model for the current year through 2017-18. The court has retained jurisdiction of the case to monitor the state's progress.

For 2013-14, state apportionment revenues significantly increased as a result of the McCleary decision. State general purpose revenues increased by \$14M, or 9.4 percent from the prior year – a combination of student enrollment up 360 FTE from the prior year, an increase in the staff mix factor, and the increase in the prototypical school funding model as a result of McCleary improved revenues from this source.

In November, 2014, Initiative 1351 was passed by voters, and would require by 2018 that kindergarten through third grade classes have no more than 17 students. There was no funding source tied to this initiative, and the estimated state-wide cost is \$4.7B through 2019. I-1351 has no fiscal impact in 2014-15.

The district will continue to monitor enrollment trends and actions taken by the state legislature as well as the effect of a slow local economy.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the funding it receives. If you have questions about this report or need additional financial information, visit www.tacoma.k12.wa.us or contact:

Marianne Bigelow
Accounting Services Manager
Tacoma School District No. 10
601 S. 8th Street
Tacoma, WA 98405

TACOMA SCHOOL DISTRICT No. 10
STATEMENT OF NET POSITION
August 31, 2014

			Primary Government
	Note No.		Governmental Activities
ASSETS			
Cash and Cash Equivalents	1.F.1	\$	8,199,181
Investments	2.A		141,343,000
Property Tax Receivable	1.F.2		67,101,845
Receivables, Net	1.F.3		553,036
Due From Other Governments	1.F.5		6,646,978
Inventories	1.G		3,127,973
Prepaid Items	1.G		1,289,313
Capital Assets, net of accumulated depreciation, where applicable:	4		
Land			42,745,423
Buildings & Improvements			656,516,582
Equipment			3,939,357
Construction-in-Progress			35,939,196
TOTAL ASSETS			967,401,882
LIABILITIES			
Accounts Payable			18,199,217
Accrued Wages & Benefits Payable			14,964,677
Unearned Revenue			101,692
Long-Term Liabilities	7.A		
Due within one year			119,930,790
Due in more than one year			262,279,366
TOTAL LIABILITIES			415,475,742
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	1.J		846,160
TOTAL DEFERRED INFLOWS OF RESOURCES			846,160
NET POSITION			
Net Invested in Capital Assets			489,838,116
Restricted for:			
Associated Student Body			1,935,440
Capital Projects			10,154,537
Debt Service			9,447,192
The Sound Partnership Employee Benefit Trust			6,509,953
State Grants			786,566
Unrestricted			32,408,178
TOTAL NET POSITION		\$	551,079,980

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		PROGRAM REVENUES			PRIMARY GOVERNMENT
Functions/Programs	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Regular Instruction	\$ 202,869,927	\$ 1,429,832	\$ 16,878,012	\$ 770,815	\$ (183,791,269)
Federal Stimulus	176,527	-	146,033	-	(30,494)
Special Instruction	46,538,041	1,968,321	\$ 35,225,174	23,169	(9,321,377)
Career & Technical Instruction	11,320,711	145,804	\$ 12,296,720	72,500	1,194,313
Compensatory Instruction	31,392,881	9,750	\$ 30,736,445	47,284	(599,402)
Other Instructional Programs	5,545,242	906,697	1,973,718	-	(2,664,827)
Community Services	536,295	685,744	119,735	-	269,184
Support Services	76,924,636	4,147,217	18,196,404	739,294	(53,841,721)
Extracurricular Activities (ASB)	2,018,381	1,991,012	-	-	(27,369)
Interest Payment on Long-Term Debt	9,925,834	-	-	-	(9,925,834)
Total Governmental Activities	\$ 387,248,476	\$ 11,284,377	\$ 115,572,241	\$ 1,653,062	\$ (258,738,796)

General Revenues:

Taxes:

Property taxes, levies for maintenance and operations	82,356,831
Property taxes, levies for debt service	33,534,564
Property taxes, levies for capital projects	18,116,612
Unallocated State Apportionment & Others	129,796,551
Interest and Investment earnings	245,630

Total General Revenues**264,050,188****Changes in Net Position****5,311,394****Net Position - Beginning**

545,768,586

Net Position - Ending**\$ 551,079,980**

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
August 31, 2014

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECT FUND	TRANSPORTATION VEHICLE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash on Hand and in Bank	\$ 102,507	\$ 218,162	\$ 174,100	\$ 1,001,870	\$ 2,519	\$ 1,499,159
Investments	48,787,000	1,875,000	9,200,000	78,295,000	3,186,000	141,343,000
Property Tax Receivable	41,136,591	-	17,938,774	8,026,480	-	67,101,845
Accounts Receivable, Net	398,962	11,063	-	-	-	410,025
Interest Receivable	256	10	48	31,488	17	31,818
Interfund Receivable	347,910	4,215	-	296	-	352,421
Due From Other Government Units	3,530,675	-	-	3,116,303	-	6,646,978
Inventories at Cost	3,078,747	49,226	-	-	-	3,127,973
Prepaid Items	1,280,474	8,839	-	-	-	1,289,313
TOTAL ASSETS	98,663,122	2,166,514	27,312,922	90,471,436	3,188,536	221,802,531
LIABILITIES:						
Accounts Payable	9,212,068	93,566	-	6,723,796	-	16,029,430
Accrued Wages & Benefits Payable	14,967,640	972	-	(3,935)	-	14,964,677
Due To Other Funds	4,511	3,456	-	344,454	-	352,421
Unearned Revenue - Other	101,692	-	-	-	-	101,692
TOTAL LIABILITIES	24,285,911	97,994	-	7,064,316	-	31,448,220
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenue	713,079	133,080	-	-	-	846,160
Unavailable Revenue - Property Taxes	41,136,591	-	17,938,774	8,026,480	-	67,101,845
TOTAL DEFERRED INFLOWS OF RESOURCES	41,849,671	133,080	17,938,774	8,026,480	-	67,948,005
FUND BALANCES						
Nonspendable						
Nonspendable - Inventory & Prepaid Items	4,359,221	58,065	-	-	-	4,417,286
Restricted						
Restricted for C/over of Restricted Revenues	786,566	-	-	-	-	786,566
Restricted for Construction	-	-	-	48,002,437	-	48,002,437
Restricted for Debt Service	73,044	-	9,374,148	-	-	9,447,192
Restricted to Fund Purposes	-	1,874,835	-	-	-	1,874,835
Restricted for Technology	-	-	-	13,150,702	-	13,150,702
Committed						
Committed to Debt & Fiscal Management	12,138,279	-	-	-	-	12,138,279
Committed to Other Purposes	1,000,000	-	-	-	-	1,000,000
Assigned						
Assigned to Encumbrances	140,355	2,541	-	14,227,501	-	14,370,397
Assigned to Budget Carryover	2,267,660	-	-	-	-	2,267,660
Assigned to Future Operations	8,732,107	-	-	-	-	8,732,107
Assigned to Curriculum & Instruction	3,030,308	-	-	-	-	3,030,308
Assigned to Fund Purposes	-	-	-	-	3,188,536	3,188,536
TOTAL FUND BALANCES	32,527,540	1,935,440	9,374,148	75,380,640	3,188,536	122,406,304
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 98,663,122	\$ 2,166,514	\$ 27,312,922	\$ 90,471,436	\$ 3,188,536	\$ 221,802,531

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
RECONCILIATION
BALANCE SHEET/STATEMENT OF NET POSITION
August 31, 2014

	Total Governmental Funds	Long-Term Assets, Liabilities*	Internal Service Fund *	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS					
Cash on Hand and in Bank	\$ 1,499,159	\$ -	\$ 6,700,022	\$ -	\$ 8,199,181
Investments	141,343,000	-	-	-	141,343,000
Property Tax Receivable	67,101,845	-	-	-	67,101,845
Receivables, Net	441,843	-	111,193	-	553,036
Due From Other Funds	352,421	-	-	(352,421)	-
Due From Other Governments	6,646,978	-	-	-	6,646,978
Inventories	3,127,973	-	-	-	3,127,973
Prepaid Items	1,289,313	-	-	-	1,289,313
Capital Assets, Net (land, bldg, eqmt)	-	739,140,558	-	-	739,140,558
Unamortized Bond Issue Costs	-	-	-	-	-
TOTAL ASSETS	221,802,531	739,140,558	6,811,215	(352,421)	967,401,882
LIABILITIES					
Accounts Payable	16,029,430	1,868,525	301,262	-	18,199,217
Wages, Benefits & Other Payables	14,964,677	-	-	-	14,964,677
Due To Other Funds	352,421	-	-	(352,421)	-
Unearned Revenue	101,692	-	-	-	101,692
Long-Term Liabilities	-	382,210,156	-	-	382,210,156
TOTAL LIABILITIES	31,448,220	384,078,681	301,262	(352,421)	415,475,742
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	846,160	-	-	-	846,160
Unavailable Revenue - Property Taxes	67,101,845	(67,101,845)	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	67,948,005	(67,101,845)	-	-	846,160
FUND BALANCES/NET ASSETS					
Total Fund Balances	122,406,304	422,163,722	6,509,953	-	551,079,981
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 221,802,531	\$ 739,140,558	\$ 6,811,215	\$ (352,421)	\$ 967,401,882

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Local	\$ 89,076,469	\$ -	\$ 33,541,879	\$ 18,314,090	\$ 3,119	\$ 140,935,557
State	206,856,311	-	-	3,086,637	566,260	210,509,208
Federal	34,852,232	-	-	-	-	34,852,232
Miscellaneous	3,449,380	1,991,012	-	206,370	-	5,646,762
TOTAL REVENUES	334,234,392	1,991,012	33,541,879	21,607,098	569,379	391,943,759

EXPENDITURES						
Current Operating:						
Regular Instruction	174,589,139	-	-	-	-	174,589,139
Federal Stimulus	154,555	-	-	-	-	154,555
Special Instruction	43,958,775	-	-	-	-	43,958,775
Career & Technical Instruction	10,676,618	-	-	-	-	10,676,618
Compensatory Instruction	29,643,976	-	-	-	-	29,643,976
Other Instructional Programs	5,225,905	-	-	-	-	5,225,905
Community Services	517,033	-	-	-	-	517,033
Support Services	70,465,347	-	-	-	-	70,465,347
Student Activities	-	2,018,381	-	-	-	2,018,381
Debt Service:						
Principal	-	-	19,595,000	-	-	19,595,000
Interest and Other Charges	-	-	11,814,429	-	-	11,814,429
Capital Outlay:						
Other	1,653,063	-	-	56,682,917	722,169	59,058,149
TOTAL EXPENDITURES	336,884,412	2,018,381	31,409,429	56,682,917	722,169	427,717,307
Excess (Deficiency) of Revenues Over Expenditures	(2,650,020)	(27,369)	2,132,450	(35,075,819)	(152,790)	(35,773,548)

OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Real Property	-	-	-	62,307	-	62,307
Proceeds from Sale of Surplus Equipment	68,627	-	-	-	-	68,627
Transfers	1,500,000	-	-	(1,500,000)	-	-
TOTAL OTHER FINANCING SOURCES AND USES	1,568,627	-	-	(1,437,693)	-	130,934
NET CHANGE IN FUND BALANCE	(1,081,393)	(27,369)	2,132,450	(36,513,512)	(152,790)	(35,642,614)

Fund Balance - Beginning	33,608,933	1,962,810	7,241,697	111,894,152	3,341,326	158,048,918
Fund Balance - Ending	32,527,540	1,935,440	9,374,148	75,380,640	3,188,536	122,406,304

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
RECONCILIATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
August 31, 2014

	Total Governmental Funds	Long-Term Revenue, Expenses *	Capital Related Items *	Internal Service Fund *	Long-Term Debt Transactions *	Statement of Activities Totals
REVENUES AND OTHER SOURCES						
Property Taxes	\$ 134,008,007	\$ 481,776	\$ -	\$ -	\$ -	\$ 134,489,783
Local Non-Taxes	6,927,550	-	-	-	-	6,927,550
State	210,509,208	-	-	-	-	210,509,208
Federal	34,852,232	-	-	-	-	34,852,232
Miscellaneous	5,646,762	-	-	3,399	-	5,650,161
Other Sources:						
Proceeds from Sale of Real Property	62,307	-	-	-	-	62,307
Proceeds from Sale of Surplus Eqmt	68,627	-	-	-	-	68,627
TOTAL	392,074,693	481,776	-	3,399	-	392,559,868
EXPENDITURES/EXPENSES						
Current:						
Regular Instruction	174,589,139	3,601,039	17,386,584	(56,778)	-	195,519,984
Federal Stimulus	154,555	3,188	12,438	(50)	-	170,131
Special Instruction	43,958,775	906,685	812	(14,296)	-	44,851,976
Career & Technical Instruction	10,676,618	220,213	17,205	(3,472)	-	10,910,564
Compensatory Instruction	29,643,976	611,431	9,756	(9,641)	-	30,255,522
Other Instructional Programs	5,225,905	107,788	12,346	(1,700)	-	5,344,339
Community Services	517,033	-	-	(168)	-	516,865
Support Services	70,465,347	1,464,068	2,267,692	(22,916)	(36,521)	74,137,670
Student Activities	2,018,381	-	-	-	-	2,018,381
Debt Service:						
Principal	19,595,000	-	-	-	(19,595,000)	-
Interest and Other Charges	11,814,429	-	-	-	(1,888,595)	9,925,834
Capital Outlay **	59,058,149	-	(46,054,047)	-	-	13,004,103
Other Uses:						
Bonds, Issuance Costs	-	-	-	-	593,106	593,106
TOTAL EXPENDITURES/EXPENSES	427,717,307	6,914,413	(26,347,214)	(109,021)	(20,927,010)	387,248,476
NET CHANGE FOR THE YEAR	\$ (35,642,614)	\$ (6,432,637)	\$ 26,347,214	\$ 112,420	\$ 20,927,010	\$ 5,311,394

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
PROPRIETARY FUND (The Sound Partnership)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

		<div style="border: 1px solid black; padding: 2px; text-align: center;"> Governmental Activities </div> <div style="border: 1px solid black; padding: 2px; text-align: center;"> Internal Service Fund </div>
OPERATING REVENUES		
Premiums Contributions	\$	41,465,657
TOTAL OPERATING REVENUES		41,465,657
OPERATING EXPENSES		
Benefits Claims		2,534,259
Insurance Premiums		38,045,089
Administrative Expenses		750,195
Working on Wellness		31,769
TOTAL OPERATING EXPENSES		41,361,312
OPERATING INCOME (LOSS)		104,345
NONOPERATING REVENUES (EXPENSES)		
Investment Earnings		1,306
Net Appreciation in Fair Value of Investments		2,093
Other Income		4,676
TOTAL NONOPERATING REVENUES (EXPENSES)		8,075
CHANGE IN NET POSITION		112,420
NET POSITION - BEGINNING		6,397,533
NET POSITION - ENDING	\$	6,509,953

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
PROPRIETARY FUND (The Sound Partnership)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

Governmental Activities
Internal Service Fund

CASH FLOWS FROM OPERATING ACTIVITIES

Premium Contributions	\$ 41,465,657
Prepaid Expenses	(32,890)
Benefits Payments	(2,591,087)
Insurance Premium Payments	(37,916,834)
Administrative	(750,195)
Miscellaneous Payments	(31,769)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	142,882

CASH FLOWS FROM INVESTING ACTIVITIES & OTHER NON-OPERATING ACTIVITIES

Purchases and Sales of Investments	993,560
Interest and Dividends	2,371
Other Income	4,676
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,000,607

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

1,143,489

BALANCES - BEGINNING OF THE YEAR

5,556,533

BALANCES - END OF THE YEAR

\$ 6,700,022

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 104,345
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Prepaid Expenses	(32,890)
Increase (Decrease) in Liabilities	71,427

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

\$ 142,882

NONCASH FINANCING AND INVESTING

Depreciation in Fair Value of Investments/Other Income	(6,769)
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The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2014

		Private-Purpose Trusts
ASSETS		
Cash and Cash Equivalents	\$	82,833
Accounts Receivable		16,309
Investments at Fair Value		309,000
TOTAL ASSETS		408,143
LIABILITIES		
Accounts Payable		27,447
TOTAL LIABILITIES		27,447
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue		1,425
TOTAL DEFERRED INFLOWS OF RESOURCES		1,425
NET POSITION		
Committed to Other Purposes - Held in Trust for Scholarships and Student Aid		380,368
TOTAL NET POSITION	\$	380,368

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

		Private Purpose Trusts
ADDITIONS		
Donations	\$	205,271
TOTAL ADDITIONS		205,271
 DEDUCTIONS		
Scholarships		53,622
Tuition and Fees		3,185
Supplies & Materials		59,468
Field Trips		23,043
Purchased Services		10,190
Salaries & Benefits		8,093
TOTAL DEDUCTIONS		157,601
 CHANGE IN NET POSITION		 47,670
 Net Position, Beginning of the year		 332,699
Net Position, End of the year	\$	380,368

The notes to the basic financial statements are an integral part of this statement.

TACOMA SCHOOL DISTRICT No. 10
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 1, 2012 through August 31, 2013

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tacoma School District's financial reports, as reflected by the accompanying financial statements, conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the district are described below:

A. REPORTING ENTITY

The Tacoma School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in preschool – grade 12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The Tacoma School District's financial statements include all funds and organizations that are controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district. The component unit discussed below is included in the Tacoma School District reporting entity because of the significance of its operational or financial relationships with the district.

Blended Component Unit. The Sound Partnership is a health and welfare trust fund (a separate legal entity) administered by a joint board of five management and five labor trustees. The participants of the Trust are all employees of the Tacoma School District. The Tacoma School District retains complete governing control (appoints board of trustees, and is accountable for financial matters) over the Sound Partnership which provides medical, dental, vision, disability, and life insurance benefits to district employees and their eligible dependents. The Trust is required to purchase fiduciary liability insurance and any other insurance as they deem proper to cover any potential losses. There were no settlements resulting from losses that exceed the insurance coverage. The component unit's fund is blended into those of the district by appropriate activity type to compose the *primary government* presentation. The Sound Partnership is reported in the internal service fund in accordance with GASB Statement No.10 (Risk Financing). The Sound Partnership financial statements are available from:

The Sound Partnership
601 South 8th Street
Tacoma, Washington 98405

B. BASIS OF PRESENTATION

The accounts of the district are organized on the basis of funds in governmental fund financial statements, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The district's basic financial statements in this report consist of:

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

Overall governmental activities are reported here without displaying individual funds or fund types and display information about the district as a whole. They include the primary government and its component unit (The Sound Partnership), however, they do not contain fiduciary activities or funds.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The government-wide financial statements consist of the following:

- a. **Statement of Net Position** – The Statement of Net Position reports all financial and capital resources. Capital assets (land, land improvements, building, building improvements, vehicles, and equipment) are reported at historical cost, net of accumulated depreciation.
- b. **Statement of Activities** – The operations of the district presented net of the applicable program revenues. General revenues are divided into property taxes, interest, and investment earnings. The expenses and revenues are reported as follows:

Expenses – Expenses are reported by function/program and include direct and indirect expenses. Depreciation expenses are allocated to direct expenses if they can be specifically identified with a function/program. Interest expenses may be considered direct (interest on long-term debt, when borrowing is essential to the creation or continuing existence of a program) or indirect expenses (interest on long-term liabilities).

Revenues – The revenues are divided into program revenues and general revenues. Program revenues derived directly from the program itself or from parties outside the district's taxpayers, as a whole. They reduce the net cost of the function to be financed from the district's general revenues. Program-specific grants and contributions include revenues arising from mandatory and voluntary non-exchange transactions with federal, state governments, organizations, or individuals that are restricted for use in a particular program.

General revenues are revenues that are not required to be reported as program revenues such as property tax levies for a specific purpose and all non-tax revenues (interest and investment earnings).

Fiduciary funds are not presented in the government-wide financial statements. They are presented separately in Schedules 8 and 9.

2. FUND FINANCIAL STATEMENTS

The governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. It includes the general fund, special revenue fund (associated student body fund), capital projects fund, transportation vehicle fund, and debt service fund. Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year-end to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for the unmatured principal and interest, which are recorded when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal must be paid. Such amounts thus are not current liabilities of the debt service fund. Long-term liabilities are not recognized in governmental fund liabilities.

GOVERNMENTAL FUNDS

General Fund

This fund is the district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund. The revenues of the general fund are derived primarily from the State of Washington, local property taxes, and federal grants. In keeping with the principle of as few funds as necessary, nutrition services, maintenance, technology services, printing and graphics, and pupil transportation activities are included in this fund.

Special Revenue Fund (Associated Student Body Fund)

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Fund (ASB Fund) is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources belong to the district.

Revenues include the extracurricular fees and resources collected in fundraising events for students. Allowable expenditures include extra-curricular activities for students that are of a cultural, athletic, recreational, or social nature. Disbursements require the joint approval of the appropriate student body organization and the district's board of directors.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principle, interest, and related expenditures.

Capital Projects Funds

The capital projects fund type consists of the Capital Projects Fund and the Transportation Vehicle Fund.

The Capital Projects Fund accounts for financial resources that are to be used for the construction or acquisition of major capital assets. This fund must be used when projects are financed wholly or in part by bond issues, intergovernmental resources, major private donations, or insurance recoveries. Expenditures in this fund may also be for energy capital improvements to existing buildings and the purchase of certain initial equipment for existing buildings.

The Transportation Vehicle Fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment. The major sources of revenues in this fund include the state reimbursement for pupil transportation equipment and special levies.

PROPRIETARY FUNDS

The Sound Partnership (a blended component unit) is reported in the internal service fund, using the accrual basis of accounting.

The internal service fund distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing and delivering services (health, dental, vision, disability, etc.) to the Tacoma School District's employees. The effect of internal activities have been eliminated from the government-wide financial statements, however, interfund services provided and used are not eliminated in the process of consolidation.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. Trust funds are used to account for assets held for individuals, private organizations, other districts, or funds in its fiduciary capacity as trustee or agent.

Private Purpose Trust Fund

This fund is used to account for resources legally held in trust by the district where principal and income benefit individuals, private organizations, or other governments. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the district's programs. These trusts are primarily used for post-secondary scholarships, and to assist needy students with the purchase of uniforms, ASB memberships, etc.

MAJOR AND NON-MAJOR FUNDS

The district considers all governmental funds "major funds".

C. BUDGETS AND BUDGETARY ACCOUNTING

GENERAL BUDGET POLICIES

The Tacoma School District budgets its funds in accordance with the Revised Code of Washington Chapter 28A.505 and Chapter 392-123 of the Washington Administrative Code (WAC). The board adopts the budget after public hearings. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period. Annual appropriated budgets are adopted at the fund level. Each governmental fund's total expenditures cannot, by law, exceed its formal fund appropriation. Management is authorized to modify specific accounts within the overall fund appropriation. However, only the board has the authority to increase or decrease a given fund's annual budget. The board may adopt a revised or supplemental budget appropriation after public hearings anytime during the fiscal year. There were no revisions at the fund level during fiscal year 2013-14.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders) outstanding at year end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

BUDGETARY BASIS OF ACCOUNTING

For budget and accounting purposes, revenues and expenditures are accounted for on a modified accrual basis of accounting as prescribed in laws for all governmental funds. Fund balance is budgeted as available resources and, under statute, may not be negative.

ENCUMBRANCES

Encumbrance accounting is employed in governmental funds. Purchase orders and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. Encumbrances in the amount of \$14,370,397 within the General (\$140,355), Capital Projects (\$14,227,501), and ASB (\$2,541) funds were re-encumbered on September 1, 2014.

Significant encumbrances include the construction contracts for energy improvements throughout the district, the Washington Elementary modernization project, planning costs related to the Wilson, McCarver, and Stewart construction projects, and various Technology initiatives in the Capital Project Fund. In the General Fund, there were several encumbrances included in the amount reserved. Summer maintenance and repairs that weren't quite complete at August 31st, furniture and equipment backorders, and supply orders placed late in the year make up the bulk of the encumbrances.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

MEASUREMENT FOCUS

The government-wide financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains and losses using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financials are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The private-purpose trust funds are reported on the accrual basis of accounting.

BASIS OF ACCOUNTING

In the government-wide financial statements, governmental activities are presented using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. The district considers revenues derived from property taxes available when they are collected within 60 days after year-end.

E. ELIMINATIONS AND RECLASSIFICATIONS

In the process of aggregating data for the government-wide Statements of Net Position and the Statement of Activities, the interfund receivables and payables within governmental funds, except those with fiduciary funds, were eliminated. Interfund services are not eliminated from the government-wide presentation.

F. ASSETS, LIABILITIES AND NET POSITION/RESERVES/DESIGNATIONS

1. Cash, Cash Equivalents, and Investments

The Tacoma School District’s cash and cash equivalents are considered to be cash on hand, certificates of deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Pierce County Treasurer is the ex-officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf.

The district uses the Bank of New York as its fiscal agent for bond principal and coupon interest redemption. Short-term investments are shown on the Statement of Net Position and on the Fund Balance Sheets at cost, net of amortized premium or discount, and the long-term investments are stated at fair value. The investments in governmental funds are held by the Pierce County Treasurer which reports investments at amortized cost. Gains or losses on long-term investments are recognized at year end. The district intends to hold the time deposits and securities until maturity.

2. Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Per Revised Code of Washington 84.60.020 the tax assessment date is January 1 of the calendar year of collection. The tax lien date is January 1 of the year of collection and taxes receivable are recognized as of that date. Current year taxes are due in full as of April 30, and are delinquent after that date. However, without incurring penalty, the taxpayer may elect to pay one-half of the taxes due by April 30, with the remaining one-half taxes due October 31, and are delinquent after that date. Typically, a little more than half of the taxes due are collected on the April 30 date. In accordance with state law, Pierce County may begin foreclosure proceedings following the third year of delinquency. In governmental fund financial statements, property tax revenues which are measurable but not available (taxes that are not expected to be collected within 60 days after the current period) are recorded as receivables and unearned revenues on the governmental funds statements. In government-wide financial statements, property tax revenues are accrued at year-end.

3. Accounts Receivable

This account represents amounts due for services rendered by the district, net of allowance for doubtful accounts. The district considers receivables collected within 60 days after year end to be available and recognizes them as revenues of the current year.

4. Due To/From Other Funds

Interfund receivables and payables and the associated revenues and expenditures/expenses are recorded in the respective funds in *government fund financial statements*. Interfund receivables and payables are eliminated in *government-wide financial statements*, except those with fiduciary finds, which are reclassified as a third-party receivable or payable.

5. Due From Other Governments

This account represents receivables for federal, state, and local grants. Grant revenues are recorded in the year in which the related expenditures are incurred.

G. INVENTORIES AND PREPAID ITEMS

The warehouse inventory is valued at cost using the weighted average method perpetual inventory system. The "consumption method" of inventory is used, which charges the inventory accounts when inventory is received and charges the appropriate department as expenditures when consumed. The Nonspendable – Inventory & Prepaid Items fund balance categorization reflects the district's recorded inventories and prepaid items on the balance sheet. These are assets of the district that are not in spendable form.

United States Dept. of Agriculture (USDA) commodities consist of food donated by the USDA for use in the district's nutrition services program. The commodities are valued at the prices paid by the USDA for the commodities, and are included in the general fund inventory. As of August 31, 2014, the value of the USDA commodities included in this district's inventory was \$1,012,738.

Prepaid items in the general fund and special revenue fund consist of software licenses and other prepayments made late in 2013-14 for the new school year. Inventory amounts also include expendable supplies and equipment, generally purchased over the summer, and held for consumption when school begins in the fall. The costs are recorded as expenditures at the time individual inventory items are consumed.

H. BOND DISCOUNT, BOND PREMIUMS & ISSUANCE COSTS

In governmental fund types, bond discounts, premium and issuance costs are recognized in the period of issuance. In government-wide financial statements, bond premiums are amortized over the life of the bonds.

I. CAPITAL ASSETS

Capital assets, which include property, buildings and improvements, and equipment, are reported in the applicable governmental activities in the government-wide financial statements. The district's equipment capitalization policy includes items where the individual cost of the asset is \$5,000 or more, and the asset has a useful life of longer than one year. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized, and are charged as expenditures in the current period. In the governmental fund financial statements, capital assets are accounted for as expenditures upon acquisition, and no depreciation is recorded. On the government-wide financial statements, capital assets are included and depreciation expense is charged and allocated to various functions/programs in compliance with GASB statement No. 34 (see Note 4).

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Property, plant, and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building & Site Improvements	20 years
Portable Buildings	25 years
Equipment & Vehicles	4-10 year

J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The district adopted the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The objective of these statements is to enhance the usefulness of financial reporting as described below.

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues from prepayments on tuition, fees, and grants, and from property taxes are reported as a deferred inflow on the government fund statements; only the unavailable revenues from non-property tax sources are included on the government-wide statements. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

K. COMPENSATED ABSENCES

1. Sick Leave

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is paid at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buyout of an amount up to the maximum annual accumulation of twelve days for active employees. For buyout purposes, employees may accumulate such leave to a maximum of

195 days, including the annual accumulation, as of December 31st of each year. To qualify for the annual sick leave buy-back, the employee must have accumulated in excess of 60 days of sick leave as of January 1.

The annual estimated sick leave buyout expenditures are accrued each pay cycle, and paid out of a liability account. Accrued sick leave is paid out upon death, retirement, or termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Sick leave is reported under long-term liabilities in the *Statement of Net Position*. For reporting purposes, 25 percent of the sick leave liability (up to 180 days) for those eligible for retirement is considered accruable. The amount of accrued sick leave as of August 31, 2014 was \$14,504,843 and reported as long-term liabilities in government-wide financial statements.

2. Vacation Leave

For the employees that receive vacation, vacation leave is accrued according to the particular bargaining agreement. Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the government fund that will pay it. It is computed at 100 percent of the accrued amount. The amount accrued for vacation leave as of August 31, 2014 was \$6,324,850 and reported as long-term liabilities in government-wide financial statements.

The sick leave and vacation liabilities reflect all salary related payments to employees.

L. NET POSITION (Government-wide Financial Statements)

The “Net Invested in Capital Assets” component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The “Restricted Net Position” component reports the assets with constraints placed on net position by external laws, regulations, or legislation. Therefore, they are available for disbursements only for specific purposes (e.g. debt service, capital projects, and others). The “Unrestricted Net Position” are assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

M. GOVERNMENTAL FUND BALANCES

Minimum Fund Balances. The district has Debt and Fiscal Board Policy 6015, and Fiscal Management Board Regulation 6015.1R which provides the overall framework for fiscal management. To maintain reserves for cash flow, emergencies, and overall sound fiscal management, the district maintains fund balance reserves that are equal to 5 percent of the annual general fund revenues, excluding other financing sources. Regulation 6015.1R was revised on November 21, 2013 to increase the reserve amount in the general fund from 4.5 percent to 5 percent. This change was implemented in 2013-14. The debt and fiscal reserves in the general fund include: Committed to Debt & Fiscal Management, Assigned to Encumbrances, Non-spendable – Inventory & Prepaids, and Unassigned Fund Balance accounts. When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and assigned last.

The district classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the district that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the district that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the district that have had a limitation placed upon their usage by formal action of the district's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors. Included in this category is the Committed to Debt & Fiscal Management which is the minimum fund balance requirement, and Committed to Other Purposes which is a reserve for contingencies.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the district has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned Fund Balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the district's board of directors and as allowed by statute. Assigned fund balance designations include Assigned to Encumbrances which is the amount remaining on purchase orders from prior years, Assigned to Budget Carryover for the carryover commitments in the General fund, Assigned to Future Operations, Assigned to Curriculum & Instruction for textbooks adoptions, and Assigned to Fund Purposes when the amount is specific to the fund as is the case with the Transportation Vehicle fund.

The superintendent or the chief financial officer has the authority to create Assignments of Fund Balance, per Board Regulation 6015.1R.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the district that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned Fund Balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned Fund Balance means that the legal restrictions and formal commitments of the district exceed its currently available resources.

Note 2. DEPOSITS AND INVESTMENTS

The district's investment policy requires funds be invested with the objective of producing the greatest return consistent with prudent business practice. The Pierce County Treasurer is the ex-officio treasurer for the district. In this capacity, the county treasurer receives, deposits, and transacts investments on the district's behalf.

A. DEPOSITS

At year end, the carrying amounts of the district's deposits and investments with financial institutions and with the Pierce County Treasurer were:

Distribution	Cash on Hand and in Bank	Investments
Governmental Funds	\$ 1,499,159	\$ 141,343,000
Sound Partnership	6,700,022	-
Total Government-Wide	8,199,181	141,343,000
Fiduciary Funds	82,833	309,000
Total Deposits & Investments	\$ 8,282,014	\$ 141,652,000

In addition to FDIC insurance, the district's deposits are protected by the Washington Public Deposit Protection Commission, a multiple financial institution collateral pool. The provision for guaranteed coverage against loss applies not only to demand deposits, but also to certificates of deposit, money market deposit accounts, and savings deposits as well as accrued interest through the date of repayment.

As of August 31, 2014, the total carrying amount of the district's investments was \$141,652,000 and this amount approximates fair value as defined by GASB Statement No. 31. Following is the composition of the investments held by the Pierce County Treasurer on behalf of the district:

Investment Type	Total Fair Value	Investment Maturities (in months)	
		Less than 1	More than 12
Local Government Investment Pool	\$ 94,652,000	\$ 94,652,000	\$ -
Federal Home Loan Bank	17,000,000	-	17,000,000
Federal Home Loan Mortgage Corp	30,000,000	-	30,000,000
Total	\$ 141,652,000	\$ 94,652,000	\$ 47,000,000

Interest Rate Risk – The Pierce County Treasurer's investment policy does not specifically address management of interest rate risk. The exposure to fair value losses arising from increasing interest rates is managed by limited the weighted average maturity of the portfolio to between six months and one year. The district's investment strategy limits the district's investment portfolio with the county to maturities of less than three years. Because of the extremely low interest rates, the district modified its investment practices and has the majority of its investments maturing on a short term basis (maturing in less than one year). When interest rates improve, the district will revert back to its normal investment strategies.

Credit Risk – Washington State statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

The district's objective is to invest with the goal of producing the greatest return consistent with Washington State statutes. The district places no limit on the amount it may invest with any one issuer.

Through the county investment policy, credit risk is managed by restricting county investments (which include the district's funds) to obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities; bankers acceptances; primary certificates of deposit issued by qualified public

depositories designated by the Washington Public Deposit Protection Commission; the Washington State local government investment pool; municipal bonds issued by the state or its local governments; and repurchase agreements collateralized by any previously authorized investments. Bankers' acceptances must be ranked in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's. With the exception of U.S. Treasuries, Government agencies, instrumentalities, and the Local Government Investment Pool (LGIP), no more than 20 percent of investments shall be from any single issuer. The credit quality distribution for securities with credit exposure are presented as a percentage of total investments is as follows:

Investment Type	Moody's Investor Service	Standard & Poor's
Local Government Investment Pool	Not rated	Not rated
Federal Home Loan Bank	Aaa	AA+
Federal Home Loan Mortgage Corp	Aaa	AA+

The LGIP is a voluntary investment vehicle operated by the Washington State Treasurer and was established in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to RCW 43.250. The LGIP is comparable to an SEC regulated Rule 2a-7 money market fund. The portfolio is managed to maintain a stable net asset value at \$1.00, like 2a-7 funds, however, maintenance of a stable net asset value at \$1.00 is not guaranteed. Additional information is available from the Washington State Treasurer's Office: <http://www.tre.wa.gov/lqip/>

B. CASH WITH FISCAL AGENT/TRUSTEES

The repayments of the bond interest and principal are made through the district's fiscal agent (The Bank of New York). Cash held by the fiscal agent due to the outstanding coupons is reported as an asset of the district.

Note 3. INTERFUND TRANSACTIONS

As of August 31, 2014, short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in governmental fund financial statements were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 347,910	\$ 4,511
Capital Projects Fund	296	344,454
Special Revenue Fund	<u>4,215</u>	<u>3,456</u>
Total	<u>\$ 352,421</u>	<u>\$ 352,421</u>

Interfund balances result from the time lag between the dates that interfund goods and services are provided and reimbursable expenditures occur, or when transactions are recorded in the accounting system and payments are made between funds. These balances are liquidated on a monthly basis.

Planned transfers between funds are included in the budgeting process. A transfer from the Capital Projects Fund to the General Fund for district-wide technology transactions (\$1,500,000) was made in August.

Note 4. CHANGES IN CAPITAL ASSETS

Purchases of equipment with a unit cost over \$5,000 are capitalized and depreciated in *government-wide financial statements*. The district's property valuation of buildings and contents for insurance purposes was \$755,039,530 on August 31, 2014.

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 40,716,666	\$ 2,028,757	\$ -	\$ 42,745,423
Construction-in-Progress	8,189,457	27,749,739	-	35,939,196
Total Capital Assets, not being depreciated	48,906,123	29,778,496	-	78,684,619
Capital assets, being depreciated:				
Building and Improvements	932,553,818	13,411,185	-	945,965,003
Equipment	37,393,570	2,902,269	(371,875)	39,923,964
Total Capital assets, being depreciated:	969,947,388	16,313,454	(371,875)	985,888,967
Less Accumulated Depreciation for:				
Building and Improvements	(271,226,093)	(18,222,328)	-	(289,448,421)
Equipment	(34,834,074)	(1,484,505)	333,972	(35,984,607)
Total Accumulated Depreciation	(306,060,167)	(19,706,833)	333,972	(325,433,028)
Total Capital assets, being depreciated, net	663,887,221	(3,393,379)	(37,903)	660,455,940
Governmental Activities Capital Assets, Net	\$712,793,344	\$ 26,385,117	\$ (37,903)	\$ 739,140,558

Depreciation expense was charged to governmental activities as follows:

	Current Year Total
Regular Instruction	\$ 17,386,584
Special Instruction	812
Career & Technical Instruction	17,205
Compensatory Instruction	9,756
Other Instruction Programs	12,346
Support Services	2,267,692
ARRA	12,438
	\$ 19,706,833

Note 5. CONSTRUCTION IN PROGRESS

School	Project	Project Authorization	Accumulated Expenditures to 8/31/2014
Elementary Schools			
Arlington	New School	\$ 28,000,000	\$ 18,694
McCarver	Modernization	30,000,000	1,175,136
Wainwright	New School	30,000,000	157,077
Washington	Modernization	30,000,000	26,330,020
Total Elementary Schools		118,000,000	27,680,927
Middle Schools			
Stewart	Modernization	58,000,000	1,119,274
Hunt	New School	48,000,000	2,270,094
Total Middle Schools		106,000,000	3,389,368
High Schools			
Science & Math Institute (SAMI)	New School	10,000,000	128,176
Wilson Phase 2	Modernization	40,000,000	4,740,725
Total Middle Schools		50,000,000	4,868,901
GRAND TOTAL		\$ 274,000,000	\$ 35,939,196

Note 6. PENSIONS**A. GENERAL INFORMATION**

Substantially all Tacoma School District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and School Employees' Retirement System (SERS).

The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380
www.drs.wa.gov

Membership by retirement system program as of June 30, 2013:

Retirement Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Data is as of last actuarial valuation date of June 30, 2013.

Certificated public employees are members of TRS. Non-certificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least 10 service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS, and SERS respectively.

The district contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

B. CONTRIBUTIONS

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum), 15.00% (maximum)		

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increases to a maximum of 15 percent.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. The Tacoma School District is in compliance with this law. Employer required contributions in dollars (participant information for all plans is as of August 31):

<u>Plan</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
Plan I TRS	\$ 660,099	\$ 749,923	\$ 870,979
Plan II TRS	3,277,969	2,488,777	2,303,177
Plan III TRS	10,737,523	8,362,042	7,751,154
Plan I PERS	\$ 143,412	\$ 137,442	\$ 106,854
Plan II SERS	2,480,471	1,802,817	1,149,119
Plan III SERS	2,393,750	1,713,551	1,101,458

Historical trend information showing TRS, PERS, and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2013, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
PO Box 43113
Olympia, WA 98504-3113

Note 7. LONG-TERM DEBT

A. CHANGES IN LONG-TERM LIABILITIES

Bonds payable on August 31, 2014 include the following: 2005 Refunded Bond Issue, 2012 Refunded Bond Issue, and the 2013 Bond Anticipation Note (BAN). Interest on the Bonds and the BAN are payable on June 1 and December 1.

In 2001, the district passed a \$450M bond authority for construction projects and there were four separate bond issues on the \$450M. In December 2001, the board issued \$250M in nineteen-year property-tax supported general obligation bonds to finance the construction of various district projects. The majority of this \$250M bond issue was refunded in June 2005, and the original bonds were retired on December 1, 2011.

In December 2003, the board issued \$100M in eighteen-year property-tax supported general obligation bonds for the next phase of projects. This funding supported the partial modernization of Wilson High School, modernization of Lincoln High School, and construction of the new Helen B. Stafford Elementary School. Interest rates on the general obligation bonds are fixed at 2.0 to 5.0 percent depending on the year of maturity. These bonds were partially refunded in November, 2012, and the remaining bonds from this issue were retired on December 1, 2013.

In June 2005, the board issued \$45M in nineteen-year property-tax supported general obligation bonds for the third phase of projects. A new Gray Middle School was constructed on the grounds of the old Mt. Tahoma High School site, and Fern Hill Elementary was modernized. Interest rates on the general obligation bonds are fixed at 3.0 to 5.0 percent. The bonds were fully refunded in the 2012 Refunded Bond Issue.

In December 2005, the board issued the final \$55M in seventeen-year property-tax supported general obligation bonds for the final phase of projects. The new First Creek Middle School and about \$6M of the new Gray Middle School project were constructed with this phase of funding, and the new Geiger Elementary School project came from this source. Interest rates on these bonds are 4.0 to 5.0 percent depending on the year of maturity. These bonds were partially refunded in November 2012, and the final payment on the original issue was made on June 1, 2013.

In February 2013, the district passed a \$500M bond authority measure for construction projects. An 18-month, \$100M Bond Anticipation Note was issued in June, 2013 to fund the first phase of construction. The interest rate on the BAN is 2 percent. Construction projects include replacement and new construction of Hunt and Stewart Middle Schools, Arlington, Mary Lyon, Grant, Wainwright, Downing, Browns Point, Birney, and Boze Elementary schools; modernization of Washington and McCarver Elementary schools; modernization or replacement of Wilson High School; construction of new facilities at the Science and Math Institute; and district-wide health and safety upgrades.

In prior years, the district defeased other general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on these old bonds. Accordingly, the trust account assets and the liability for the bonds defeased in prior years are not included in the district's financial statements.

In 2011-12, the district entered into an agreement with Daktronics Sports Marketing to design, manufacture, install, and market electronic scoreboards at Mt. Tahoma Stadium and Foss, Lincoln, Mt. Tahoma, Stadium and Wilson gymnasiums. The initial cost of the equipment was \$362,608, and a down payment of \$180,000 was made leaving a balance of \$182,608 to be financed. A financing plan with equal payments of \$43,792.30 will be made over the next five years with 10 percent interest charged. In 2012-13, the advertising revenue generated from the scoreboards provided enough funding to make the interest and principal payments on the equipment.

The debt service fund is established to redeem the outstanding bonds. Compensated absences and other liabilities are primarily liquidated in the general fund. Besides the long-term liabilities, the district also has short-term liabilities such as general accounts payable, wages and benefits payable, and deferred revenues. Those are on-going liabilities and will liquidate within one year. The district does not have conduit debt or hold demand bonds.

During the year ended August 31, 2014, the following changes occurred in liabilities reported in the government-wide financial statements.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due In One Year
GOVERNMENT ACTIVITIES					
Bonds and Contracts Payable:					
2003 UTGO Bonds	\$ 9,000,000	\$ -	\$9,000,000	\$ -	\$ -
2005 Refunding of 2001 UTGO	133,130,000	-	10,165,000	122,965,000	12,450,000
2012 Refunding of '03,05,05A UTGO's	78,905,000	-	430,000	78,475,000	5,905,000
2013 Bond Anticipation Note	98,865,000	-	-	98,865,000	98,865,000
Long-Term Financing (Daktronics)	109,566	-	36,521	73,045	36,521
Total Bonds and Contracts Payable	320,009,566	-	19,631,521	300,378,045	117,256,521
Other Liabilities:					
Unamortized Bond Premium	15,888,136	-	1,737,636	14,150,500	968,994
Net OPEB Obligation	40,875,109	11,555,030	5,578,220	46,851,919	-
Compensated Absences	19,892,090	2,692,202	1,754,600	20,829,693	1,705,275
Total Other Liabilities	76,655,335	14,247,232	9,070,456	81,832,111	2,674,269
GRAND-TOTAL	\$396,664,902	\$14,247,232	\$28,701,977	\$382,210,156	\$119,930,790

B. UNAMORTIZED BOND ISSUANCE COSTS

The unamortized bond issuance costs for the unlimited tax general obligation bonds and the bond anticipation note are no longer written off over the life of the bonds, and the entire amount is being liquidated in 2013-14.

Unamortized Bond Issuance Costs					
Descriptions	Beginning Balance	Debit	Credit	Ending Balance	
2003 Unlimited Tax GO Bonds	\$ 10,847	\$ -	\$ 10,847	\$ -	
2012 Unlimited Tax GO Bonds	368,641	-	368,641	-	
2013 Bond Anticipation Note	213,618	-	213,618	-	
	\$ 593,106	\$ -	\$ 593,106	\$ -	

C. BOND PREMIUM

The district sold Unlimited General Obligation Bonds at a premium for the bond sales in 2003, and 2012. The Bond Anticipation Note in June, 2013 also sold at a premium. The premiums are being amortized over the life of the bonds. Below is a schedule showing the current year's change in unamortized premium costs:

Unamortized Premium Costs					
Descriptions	Beginning Balance	Increase	Decrease	Ending Balance	
2003 Unlimited Tax GO Bonds	\$ 170,872	\$ -	\$ 170,872	\$ -	
2012 Unlimited Tax GO Bonds	13,376,142	-	7,564	13,368,578	
2013 Bond Anticipation Note	2,341,123	-	1,559,200	781,923	
	\$ 15,888,136	\$ -	\$1,737,636	\$ 14,150,500	

D. DEBT SERVICE REQUIREMENT TO MATURITY

Year Ending August 31,	UTGO Bonds & Bond Anticipation Note		
	Principal	Interest	Total
2015	117,220,000	10,014,325	127,234,325
2016	19,255,000	8,285,250	27,540,250
2017	19,435,000	7,424,350	26,859,350
2018	30,000,000	6,388,475	36,388,475
2019	30,220,000	4,973,450	36,308,600
2020	29,260,000	3,454,900	32,714,900
2021	13,065,000	2,195,750	15,260,750
2022	6,850,000	1,694,950	8,544,950
2023	10,795,000	1,281,125	12,076,125
2024	11,705,000	803,125	12,508,125
2025	12,500,000	297,500	12,797,500
TOTAL	\$ 300,305,000	\$ 46,813,200	\$ 348,233,350

E. ARBITRAGE REBATE

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. Ninety percent of the rebate is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after the bonds are retired. Because positive arbitrage can offset negative arbitrage, the rebate amount fluctuates each year and may or may not be owed at the payment intervals.

The district uses a contractor to provide these arbitrage rebate calculations. At the last check in period, the district had no arbitrage rebate liability.

Note 8. COMMITMENTS UNDER LEASES

The district is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the district's financial statements.

The district entered into a new copier agreement in June, 2009 and the amount listed includes the final year's obligation for the five-year agreement. The district entered into a five-year lease agreement to rent space in downtown Tacoma for the expansion of the School of the Arts on September 1, 2012. A five-year parking lot lease associated with the School of the Arts is included; the lease began in April 2010, and ends in March 2015. Another five year property lease is also listed – the lease for additional parking space next to the Buildings & Grounds Department began in 2011, and will end in 2016. The following is a schedule of future minimum rental payments required under operating leases with initial or remaining non-cancellable lease terms of one year or more as of August 31, 2014.

Year Ended August 31	Amount
2014	750,248
2015	240,029
2016	244,104
2017	<u>216,996</u>
Minimum payments required	\$1,451,377

Note 9. RISK MANAGEMENT

A. UNEMPLOYMENT

The district self-insures for unemployment compensation for all of its eligible employees. Actual employee claims are paid by the State of Washington, Department of Employment Security and then reimbursed by the district. This self-insurance program is more cost-effective for the district than full participation in the state unemployment compensation program.

Unemployment				
<u>Fiscal Year</u>	<u>Beg. Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>End. Balance</u>
2013	\$ 479,319	476,955	286,364	\$ 669,910
2014	669,910	357,421	468,108	559,223

B. INDUSTRIAL INSURANCE

Effective January 1, 2002, the district joined the Puget Sound Workers' Compensation Trust, an intergovernmental risk sharing pool, approved by statute, for the purposes of group self-insuring school employee workers' compensation claims. The district forfeited its self-insurance certification. All self-insured claims prior to January 1, 2002 remain a liability for the district and are being managed by the Puget Sound Workers' Compensation Trust. The Trust pays the self-insured claims, and the district reimburses the Trust for those claims on an as incurred basis, until such time as the self-insured claims are closed. Claims occurring on or after January 1, 2002, are "Trust" claims which are managed and paid by the Trust. The district pays the trust workers' compensation premium based on employee hours worked, according to job classification codes as developed by the State's Department of Labor & Industries. In addition, the district reimburses the Trust for quarterly assessments provided by Labor & Industries to self-insured employers and self-insured groups. The Trust pays the assessments to Labor & Industries. Assessments include Supplemental Pension Fund, Asbestos Fund, Administrative Fund, Second Injury Fund, and Insolvency Trust Fund.

The industrial insurance payable includes reimbursement to the Trust for self-insured claim costs (including incurred but not reported [IBNR] claims), workers' compensation premium to the Trust for group self-insured claims costs, and reimbursement to the Trust for Labor & Industry assessments.

Industrial Insurance				
<u>Fiscal Year</u>	<u>Beg. Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>End. Balance</u>
2013	\$ 4,618,943	3,431,465	4,027,963	\$ 4,022,445
2014	4,022,445	3,601,693	4,270,717	3,353,421

C. RISK MANAGEMENT POOL

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverage for its members: Property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants. The district paid \$2,098,421 for its annual premium contribution to WSRMP for its property and liability insurance coverage.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

The Pool is audited independently by the Washington State Auditor's Office and the audit report is available on their website: <http://wsrmp.com>.

D. EMPLOYEE BENEFITS

The district made payments totaling \$41,243,696 in 2013-14 to the Sound Partnership which is a health and welfare benefit trust fund. The Sound Partnership was established in 1984 to provide comprehensive medical, dental, vision, life, and long-term disability coverage for the district's qualified employees and dependents. The Board of Trustees consists of five management members appointed by the Tacoma School District and five labor members appointed by the Tacoma Education Association. In addition to all powers and authorities under common laws, statutory authority, and other provisions of the agreement between Tacoma School District and the Trust, the board has the power to manage, acquire and dispose of the assets of the Trust. The board also appoints a "plan administrator" designated as Executive Director who oversees the Trust's day-to-day operations.

The Sound Partnership moved from a self-insured health insurance plan to a premium-based health insurance plan on January 1, 2010. This change provided comparable health care coverage at more competitive rates for the Trust's membership. The Trust remains self-insured for dental and vision coverage. Because of the change in the model, there is no longer a need to maintain such large reserves in the Trust.

The district's monthly contributions to the Sound Partnership are based on the state funding model amount for health benefits calculated on an FTE (full time equivalent) basis. Additional costs for coverage are paid by the district's employees through payroll deductions. Employee and employer contributions are remitted to the Sound Partnership on a monthly basis.

The Sound Partnership maintains its financial records using the accrual basis of accounting. The total self-insured claims reported and approved for payments were \$2,591,087 and insurance premium payments were \$37,916,834 for the year; the total contributions from participants were \$41,465,657.

The total assets and liabilities of the Sound Partnership at August 31, 2014 were respectively \$6,811,215 and \$254,112.

The Sound Partnership
Statement of Changes in Plan's Benefit Obligations

	Year Ended	
	8/31/2014	8/31/2013
Amounts Currently Payable for Claims Participants		
Balance at beginning of year	\$ 118,878	\$ 41,445
Claims reported & approved for payment	2,447,631	2,813,697
Claims Paid	(2,519,359)	(2,736,264)
Balance at End of Year	47,150	118,878
Other Obligations for Current Benefit Coverage at Estimated Amounts		
Balance at beginning of year	109,400	181,100
Net Change during the year	14,900	(71,700)
Balance at End of Year	124,300	109,400
Plan's Total Benefit Obligation at End of Year	\$ 171,450	\$ 228,278

E. POST-EMPLOYMENT HEALTH CARE BENEFITS

All eligible district employees may participate in the health care insurance programs offered by the Sound Partnership after their separation from the district due to early retirement or termination. The COBRA program is a continuation of the health care benefits from the district. Eligible employees (former employees) and dependents may be on this plan for only 18 months. COBRA offers group rates, but the monthly cost of the continuation of the health care benefits is the responsibility of the former employee. There are 32 participants in the COBRA program as of August 31, 2014.

F. OTHER POST-EMPLOYMENT BENEFITS

The State, through the Health Care Authority (HCA), administers an agent multiple-employer other post-employment benefit plan (OPEB). The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs), and 207 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 243 K-12 school districts and ESDs. The district's retirees are eligible to participate in the PEBB plan under this arrangement.

The Tacoma School District provides its retirees employer-provided subsidies associated with post-employment medical and life insurance benefits available through the PEBB. According to State law, the Washington State Treasurer collects a fee from all school district entities which are not current active members of the state Health Care Authority but participate in the state retirement system. As outlined by the State's operating budget, school districts were mandated to pay the state HCA \$64.40 per month per full-time equivalent employee in the 2013-14 fiscal year to support the program. This assessment to the district is subject to change annually. Participation in the PEBB is limited to the district's retirees.

Plan Description

Eligibility

District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 or 3 of TRS or SERS. Retirees with 5 years or more of service who are age 65 or more and retirees with 20 years or more of service who are 55 or older are eligible for post-employment benefits.

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

Medical and Life Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 Medical coverage for 2014:

Descriptions	Type of Coverage		
	Employee	Employee & Spouse	Full Family
Group Health Classic	\$ 589.19	\$ 1,172.16	\$ 1,609.39
Group Health Value	537.04	1,067.86	1,465.98
Group Health CDHP	500.69	992.20	1,317.09
Kaiser Permanente Classic	588.43	1,170.64	1,607.30
Uniform Medical Plan Classic	551.03	1,095.84	1,504.45
Uniform Medical Plan CDHP	504.56	999.94	1,327.73

The implicit rate subsidy is the difference between the total cost of pre-65 medical benefits for retirees and pre-65 contributions paid by retirees. Per member health costs vary depending on age, number of dependents, and expected morbidity.

For calendar year 2014, after age 65 retired members receive a subsidy of 50 percent of their monthly medical premiums up to \$150 per Medicare covered person.

For 2014, retirees also receive an explicit subsidy of \$7.78 per month toward life insurance premiums.

Funding Policy

The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The district's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (UAAL) over a period not to exceed thirty years as of September 1, 2008. The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the district's net OPEB.

	<u>8/31/12</u>	<u>8/31/13</u>	<u>8/31/14</u>
Determination of Annual Required Contribution			
Normal Cost at Year End	\$ 4,406,843	\$ 4,406,843	\$ 4,955,144
Amortization of UAAL	<u>4,256,577</u>	<u>4,256,577</u>	<u>5,067,069</u>
Annual Required Contribution (ARC)	8,663,420	8,663,420	10,022,213
Determination of Net OPEB Obligation			
Annual required Contribution	8,663,420	8,663,420	10,022,213
Interest on PY Net OPEB Obligation	1,191,860	1,352,417	1,532,817
Adjustment to ARC	<u>(1,222,421)</u>	<u>(1,442,578)</u>	<u>(1,703,130)</u>
Annual OPEB Cost	8,632,859	8,573,259	9,851,900
Less Contributions Made*	<u>(4,351,349)</u>	<u>(3,762,602)</u>	<u>(3,875,090)</u>
Increase in Net OPEB Obligation	4,281,510	4,810,657	5,976,810
Net OPEB Obligation - End of Year	\$ 36,064,452	\$ 40,875,109	\$ 46,851,919

* Estimated based on retiree benefit amounts.

The district's annual OPEB costs, the percentage of OPEB costs contributed to the plan, and the net OPEB obligations for 2014 were as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
8/31/2012	\$ 8,632,859	50.40%	\$ 36,064,452
8/31/2013	\$ 8,573,259	43.89%	\$ 40,875,109
8/31/2014	\$ 9,851,900	39.33%	\$ 46,851,919

Funded Status and Funding Progress

As of August 31, 2014, the most recent actuarial valuation date, the plan was 0 percent funded. The accrued liability for benefits was \$121.6 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$121.6 million.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as required supplemental information on Schedule A-3, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Projected Unit Credit (PUC)
Amortization Method	Closed, level percentage of projected payroll amortization method
Remaining Amortization Period	24 years
Asset Valuation Method	N/A - no assets
Actuarial Assumptions:	
Investment rate of return	3.75%
Projected salary increases	3.75%
Health care inflation rate	5.6% initial rate, 4.9% ultimate rate after 2091
Inflation rate	3.75%

The UAAL (\$121,609,645) as a percentage of the covered payroll (\$201,815,884) at August 31, 2014 is 60 percent.

For further information on the results the actuarial valuation of the employer provided subsidies associated with the state's PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm. The plan does not issue a separate report, however, additional information is included in the State of Washington's CAFR, which is available on this site: <http://www.ofm.wa.gov/cafr/2014/CAFR14.pdf>.

G. POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in SS457 of the Internal Revenue Code that is administered by the state deferred compensation plan.

403(b) Plan – Tax Sheltered Annuity (TSA)

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: Elective deferrals (employee contribution) and non-elective contribution (employer matching).

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. Plans are administered by a third party and the district. The plan assets are assets of the district employees, not the school district, and are therefore not reflected on these financial statements.

Note 10. RECONCILIATION BETWEEN GOVERNMENTAL FUND FINANCIAL STATEMENTS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS

A. BALANCE SHEETS/STATEMENT OF NET POSITION (SCHEDULE 3A)

When capital assets (land, building, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the district as a whole.

- | | |
|--------------------------|-----------------|
| Cost of capital assets | \$1,064,573,586 |
| Accumulated Depreciation | (325,433,028) |
| Net | \$ 739,140,558 |
- \$0 - Unamortized Bond Issuance Costs** – In governmental funds, bond issuance costs were charged to expenditures, while the unamortized bond issuance costs were previously shown as deferred charges on the Statement of Net Position. New GASB Pronouncements have provided guidance that these bond issuance costs should be expensed off in the year they occur, and not be amortized the life of the bonds. Refer to Note 7B (Unamortized bond issuance costs).

3. Long-term liabilities of **\$382,210,156** (due within one year: \$119,930,790 due more than one year: \$262,279,366) applicable to the district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities – both current and long-term – are reported in the Statement of Net Position.
4. Property tax levies (**\$67,101,845**) that will not be collected for several months after year-end and are not considered "available." Therefore, they are reported as unearned revenue in governmental funds.
5. Due To and Due From (**\$352,421**) – Internal transfers between governmental funds were eliminated in government-wide statements to avoid the "doubling-up" effect.
6. Internal service fund (The Sound Partnership) is used to provide medical, dental, and life insurances for the district's employees and their dependents. The assets and liabilities (respectively **\$6,811,215** and **\$301,262**) of the internal service fund are included in governmental activities in the Statement of Net Position.
7. Accrued interest payable on long-term debt is not reflected in fund financial statements. **\$1,868,525** of accrued interest on long-term debt is recorded in the Statement of Net Position.

B. STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES /STATEMENT OF ACTIVITIES (SCHEDULE 4A)

1. **\$481,776** – The amount of property tax levies that do not provide current financial resources are reported as unearned revenue in Governmental Funds, and as revenues in Government-Wide Financial Statements.
2. The net amount of **\$6,914,413** represents the current year increases in compensated absences (\$937,603) and to other post-employment benefits (\$5,976,810) which are not reported in governmental funds. This amount is reported in the Statement of Activities as expenditures, allocated to various applicable programs.
3. a. When capital assets (land, buildings, equipment) are purchased or constructed to be used in Governmental Activities, the cost of those assets are reported as expenditures in Governmental Funds. The Statement of Net Position includes those capital assets among the assets of the district as a whole.

Capital Outlay	\$46,054,047
Depreciation Expense	<u>(19,706,833)</u>
Difference	\$26,347,214

- b. Governmental Funds Financial Statements report capital outlay as expenditures while Government-Wide Financial Statements report depreciation expense (\$19,706,833) allocated to various applicable programs.
4. **\$19,631,521** - Repayment of bond principal amounts (\$19,595,000) and the long-term financing principal payment on the Daktronics scoreboards (\$36,521) were reported as expenditures in governmental funds, and thus have the effect of reducing fund balance. For the district as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position.
5. **\$1,888,595** – The current year bond premium reductions and the accrued interest payable on the long term debt (from July 1 – August 31) are charged to expenditures in Government-Wide Financial Statements. Below is a breakdown of the net amount.

Current year bond premium reductions	\$1,737,636
Accrued interest payable	<u>150,959</u>
	\$1,888,595

6. **\$593,106** – Amount of unamortized bond issue costs from prior years being expensed off in the current year.
7. Internal service fund (The Sound Partnership) is used to provide medical, dental, and life insurances for the district's employees. The adjustments for the internal service fund "close" the fund by allocating the net gain (**\$109,021**), except investments (**\$3,399**) which are shown under miscellaneous revenues.

Note 11. FUND EQUITY (GOVERNMENTAL FUNDS)

Fund balance as of August 31, 2014 is comprised of:

	Fund Equity (Governmental Funds)				
	General Fund	Special Revenue Fund (ASB)	Debt Service	Capital Projects Fund	Trans Vehicle Fund
Nonspendable - Inventory & Prepaid Items	4,359,221	58,065	-	-	-
Restricted for C/Over of Restricted Revenues	786,566	-	-	-	-
Restricted for Construction	-	-	-	48,002,437	-
Restricted for Debt Service	73,044	-	9,374,148	-	-
Restricted to Fund Purposes	-	1,874,835	-	-	-
Restricted for Technology	-	-	-	13,150,702	-
Restricted Fund Balance	859,610	1,874,835	9,374,148	61,153,139	-
Committed to Debt & Fiscal Management	12,138,279	-	-	-	-
Committed to Other Purposes	1,000,000	-	-	-	-
Committed Fund Balance	13,138,279	-	-	-	-
Assigned to Encumbrances	140,355	2,541	-	14,227,501	-
Assigned to Budget Carryover	2,267,660	-	-	-	-
Assigned to Contingencies	8,732,107	-	-	-	-
Assigned to Curriculum & Instruction	3,030,308	-	-	-	-
Assigned to Fund Purposes	-	-	-	-	3,188,536
Assigned Fund Balance	14,170,430	2,541	-	14,227,501	3,188,536
Total Fund Balance	32,527,540	1,935,440	9,374,148	75,380,640	3,188,536

Note 12. CONTINGENT LIABILITIES

The district receives federal and state grants for specific programs. Both types of grants are subject to audit by the Washington State Auditor's Office. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, the district believes that such allowances, if any, will be immaterial.

Note 13. LITIGATION

The district is defending against several suits and claims, which are routine in nature and common to school districts. Possible losses from these suits and claims are provided for by coverage through the Washington Schools Risk Management Pool.

Based on the recommendations of counsel, the district has provided an adequate amount for possible liabilities that management considers adequate for any uninsured losses which arise from such claims.

Note 14. SUBSEQUENT EVENTS

On November 6, 2014, the district sold \$152.62M in bonds to fund construction projects through the next year, and to refinance its bond anticipation note (BAN) which was due in full on December 1, 2014. Assessed values in the district had increased to the point that restructuring the BAN into permanent long term debt was feasible.

REQUIRED SUPPLEMENTARY INFORMATION
TACOMA SCHOOL DISTRICT No. 10
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE WITH FINAL BUDGET POSITIVE(NEGATIVE)
	ORIGINAL *	FINAL *		
REVENUES				
Local	\$ 87,280,777	\$ 87,280,777	\$ 89,076,469	\$ 1,795,692
State	205,558,295	\$ 205,558,295	206,856,311	1,298,016
Federal	35,855,217	\$ 35,855,217	34,852,232	(1,002,985)
Other	2,569,450	\$ 2,569,450	3,449,380	879,930
Total Revenues	331,263,739	331,263,739	334,234,392	2,970,653
EXPENDITURES				
Current				
Regular Instruction	182,074,288	182,074,288	174,589,139	7,485,149
Federal Stimulus	-	-	154,555	(154,555)
Special Education	44,012,875	44,012,875	43,958,775	54,100
Career & Technical Education	9,990,730	9,990,730	10,676,618	(685,888)
Compensatory Education	28,711,018	28,711,018	29,643,976	(932,958)
Other Instructional Programs	8,272,810	8,272,810	5,225,905	3,046,905
Community Services	414,311	414,311	517,033	(102,722)
Support Services	69,266,223	69,266,223	70,465,347	(1,199,124)
Capital Outlay		-		
Other	868,498	868,498	1,653,063	(784,565)
Total Expenditures	343,610,753	343,610,753	336,884,412	6,726,341
Excess of Revenues (Under) Expenditures	(12,347,014)	(12,347,014)	(2,650,020)	9,696,994
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	-	-	68,627	68,627
Transfers	1,500,000	-	1,500,000	1,500,000
Total Other Financing Sources	1,500,000	-	1,568,627	1,568,627
Changes in Fund Balance	(10,847,014)	(12,347,014)	(1,081,393)	11,265,621
FUND BALANCE-September 1	33,608,933	33,608,933	33,608,933	-
FUND BALANCE -August 31	\$ 22,761,919	\$ 21,261,919	\$ 32,527,540	\$ 11,265,621

* The budgetary basis of accounting is modified accrual, the same as the fund basis of accounting.

REQUIRED SUPPLEMENTARY INFORMATION
TACOMA SCHOOL DISTRICT No. 10
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND (ASSOCIATED STUDENT BODY FUND)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL *	FINAL *		
REVENUES				
General	\$ 1,254,634	\$ 1,254,634	\$ 889,270	\$ (365,364)
Athletics	252,000	252,000	212,922	(39,078)
Classes	410,032	410,032	243,991	(166,041)
Clubs	2,538,765	2,538,765	630,959	(1,907,806)
Private Monies	114,000	114,000	13,869	(100,131)
Total Revenues	4,569,431	4,569,431	1,991,012	(2,578,419)
EXPENDITURES				
General	1,352,257	1,352,257	783,642	568,615
Athletics	253,670	253,670	314,331	(60,661)
Classes	306,375	306,375	265,854	40,521
Clubs	2,299,639	2,299,639	640,576	1,659,063
Private Monies	114,000	114,000	13,978	100,022
Total Expenditures	4,325,941	4,325,941	2,018,381	2,307,560
Changes in Fund Balance	243,490	243,490	(27,369)	(270,859)
FUND BALANCE - September 1	1,962,810	1,962,810	1,962,810	
FUND BALANCE - August 31	\$ 2,206,300	\$ 2,206,300	\$ 1,935,440	\$ (270,859)

* The budgetary basis of accounting is modified accrual, the same as the fund basis of accounting.

REQUIRED SUPPLEMENTARY INFORMATION
TACOMA SCHOOL DISTRICT No. 10
ACTUARIAL VALUATION OF POST EMPLOYMENT BENEFITS
OTHER THAN PENSION
SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended August 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
2008	August 31, 2008	\$ -	\$ 85,466,774	\$ 85,466,774	0%	\$ 163,003,749	52%
2008	August 31, 2008*	\$ -	\$ 147,686,881	\$ 147,686,881	0%	\$ 163,003,749	91%
2009	August 31, 2008*	\$ -	\$ 147,686,881	\$ 147,686,881	0%	\$ 189,434,727	78%
2010	August 31, 2010	\$ -	\$ 166,482,728	\$ 166,482,728	0%	\$ 151,445,697	110%
2011	August 31, 2011	\$ -	\$ 166,482,728	\$ 166,482,728	0%	\$ 182,414,713	91%
2012	August 31, 2012	\$ -	\$ 110,671,006	\$ 110,671,006	0%	\$ 176,900,781	63%
2013	August 31, 2013	\$ -	\$ 110,671,006	\$ 110,671,006	0%	\$ 183,548,684	60%
2014	August 31, 2014	\$ -	\$ 121,609,645	\$ 121,609,645	0%	\$ 201,815,884	60%

*A revised actuarial study for August 31, 2008 was received on January 15, 2010.
GASB 45 was implemented for the fiscal year ended August 31, 2008.

TACOMA SCHOOL DISTRICT NO. 10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI	National School Lunch Program	10.555	N/A		\$783,793	\$783,793	4,8,9
	WA OSPI	National School Lunch Program	10.555	N/A		\$144,552	\$144,552	8,9
	WA OSPI	National School Lunch Program	10.555	N/A		\$656,597	\$656,597	8,9
	WA OSPI	National School Lunch Program	10.555	N/A		\$6,580,704	\$6,580,704	8,9
	WA OSPI	National School Lunch Program	10.555	N/A		\$178,205	\$178,205	8,9
	WA OSPI	School Breakfast Program	10.553	N/A		\$16,825	\$16,825	8,9
	WA OSPI	School Breakfast Program	10.553	N/A		\$161,889	\$161,889	8,9
	WA OSPI	School Breakfast Program	10.553	N/A		\$2,066,836	\$2,066,836	8,9
	WA OSPI	National School Lunch Program	10.555	N/A		\$74,526	\$74,526	8,9
	WA OSPI	Summer Food Service Program for Children	10.559	N/A		\$119,735	\$119,735	8,9
	WA OSPI	Fresh Fruit and Vegetable Program	10.582	N/A		\$85,744	\$85,744	8,9
	WA OSPI	Schools and Roads - Grants to States	10.665	N/A		\$23,659	\$23,659	8,9
		SUBTOTAL US DEPARTMENT OF AGRICULTURE				\$10,893,064	\$10,893,064	
Dept. of Defense								
		JROTC - Army	12.WA030389/WA030390	WA030389/WA030390	\$120,107		\$120,107	9
		JROTC - Navy	12.JROTC143S	JROTC143S	\$67,629		\$67,629	9
		JROTC - Navy Startup	12.N3951714MJRTC	N3951714MJRTC	\$1,867		\$1,867	9
		JROTC - Navy Orientation/Uniform	12.N3951714MJRTC	N3951714MJRTC	\$11,403		\$11,403	9
		JROTC - Air Force	12.WA030941	WA030941	\$59,180		\$59,180	9
		JROTC - Marines	12.WA030237	WA030237	\$52,167		\$52,167	9
		JROTC - Marines	12.WA030237	WA030237	\$899		\$899	9
		JROTC - Navy	12.N3951714MJRTC	N3951714MJRTC	\$5,599		\$5,599	9
		SUBTOTAL DEPARTMENT OF DEFENSE			\$318,850		\$318,850	
U.S. Dept. of the Interior								
	National Park Service	National Park Service Conservation, Protection, Outreach and Education	15.954	N/A		\$1,650	\$1,650	8,9
		SUBTOTAL U.S. DEPT. OF THE INTERIOR					\$1,650	
Dept. of Justice								
	City of Tacoma	Juvenile Accountability Block Grant	16.523	Contract #16630		\$22,222	\$22,222	3,9
		SUBTOTAL DEPARTMENT OF JUSTICE				\$22,222	\$22,222	

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Dept. of Ed	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0201434		\$7,772,094	\$7,772,094	5
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0222439		\$903	\$903	9
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0222467		\$109,466	\$109,466	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0229541		\$2,500	\$2,500	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228618		\$20,000	\$20,000	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0229534		\$2,500	\$2,500	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228617		\$19,322	\$19,322	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228339		\$30,000	\$30,000	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228352		\$28,504	\$28,504	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228348		\$27,798	\$27,798	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228349		\$28,144	\$28,144	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0228340		\$29,160	\$29,160	
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	#0224380		\$152,639	\$152,639	
	WA OSPI	Title I State Agency Program for Neg & Delinquent	84.013	#0223013		\$432	\$432	9
	WA OSPI	Title I State Agency Program for Neg & Delinquent	84.013	#0223031		\$84,765	\$84,765	
	WA OSPI	Special Education Grants to States	84.027	#0304348		\$75,596	\$75,596	9
	WA OSPI	Special Education Grants to States	84.027	#0304679		\$6,099,040	\$6,099,040	
	WA OSPI	Special Education Grants to States	84.027	#0337577		\$15,240	\$15,240	9
	WA OSPI	Special Education Grants to States	84.027	#0337677		\$564,699	\$564,699	9
	WA OSPI	Special Education Grants to States	84.027	458497		\$586	\$586	9
	Impact Aid	Impact Aid	84.041	01000	\$10,109		\$10,109	9
	Impact Aid	Impact Aid	84.041	21000	\$24,255		\$24,255	9
	WA OSPI	Career and Technical Education-Basic Grants to States	84.048	#0173163		\$257,321	\$257,321	
	WA OSPI	Career and Technical Education-Basic Grants to States	84.048	#0189069		\$156	\$156	9
		Indian Education Grants to Local Educational Agencies	84.060	S060A131118	\$111,721		\$111,721	
		Indian Education Grants to Local Educational Agencies	84.060	S060A141118	\$23,541		\$23,541	9
	WA OSPI	Special Education Preschool Grants	84.173	#0364348		\$2,332	\$2,332	9
	WA OSPI	Special Education Preschool Grants	84.173	#0364678		\$247,335	\$247,335	
	WA OSPI	Education for Homeless Children and Youth	84.196	#0456146		\$38,062	\$38,062	9
		Fund for the Improvement of Education	84.215	S215L100052	\$10,305		\$10,305	9
	WA OSPI	Advanced Placement Test Fee Program	84.330B	#0887346		\$5,264	\$5,264	9
	WA OSPI	English Language Acquisition Grants	84.365	#0401928		\$304,122	\$304,122	9
	WA OSPI	English Language Acquisition Grants	84.365	#0401928		\$40,000	\$40,000	9
	WA OSPI	Improving Teacher Quality State Grants	84.367	#0523133		\$23,400	\$23,400	9
	WA OSPI	Improving Teacher Quality State Grants	84.367	#0523226		\$1,862,426	\$1,862,426	
	WA OSPI	Improving Teacher Quality State Grants	84.367	#0523531		\$4,673	\$4,673	9
	WA OSPI	School Improvement Grants	84.377	#0225346		\$115,564	\$115,564	9
	WA OSPI	ARRA - School Improvement Grants, Recovery Act 12-13	84.388	#0225025		\$28,414	\$28,414	2.9
	WA OSPI	ARRA - School Improvement Grants, Recovery Act 13-14	84.388	#0225033		\$117,619	\$117,619	2
		SUBTOTAL US DEPARTMENT OF EDUCATION			\$179,931	\$18,110,074	\$18,290,005	

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Dept. of Health and Human Services	WA OSPI	Refugee and Entrant Assistance-Discretionary Grants	93.500	N/A		\$15,650	\$15,650	8,9
	DSHS/ORIA	Refugee and Entrant Assistance-Discretionary Grants	93.500	N/A		\$1,350	\$1,350	8,9
	WA OSPI	Refugee and Entrant Assistance-Discretionary Grants	93.500	#0179010		\$2,000	\$2,000	
	WA OSPI	Refugee and Entrant Assistance-Discretionary Grants	93.500	#0179001		\$217	\$217	9
		Head Start	93.600	10CH0026/48	\$1,292,505		\$1,292,505	3,9
		Head Start	93.600	10CH0194/01	\$3,680,936		\$3,680,936	3,9
		Head Start	93.600	10CH0026/48	\$22,099		\$22,099	3,9
		Head Start	93.600	10CH0194/01	\$36,361		\$36,361	3,9
		SUBTOTAL DEPT OF HEALTH AND HUMAN SERVICES			\$5,031,901	\$19,217	\$5,051,118	
		TOTAL FEDERAL AWARDS EXPENDED			\$5,530,682	\$29,046,227	\$34,576,909	

**Tacoma School District No. 10
Pierce County
EIN: 91-6001553
Schedule of Expenditure of Federal Awards
For Fiscal Year Ending August 31, 2014**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Tacoma School District's financial statements. The Tacoma School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009 Of the amount shown for this program, \$146,033 was paid from ARRA funds.

NOTE 3 – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Tacoma School District's portion, may be more than shown.

NOTE 4 – NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities distributed by the Tacoma School District during the current year and priced as prescribed by the USDA.

NOTE 5 – SCHOOLWIDE PROGRAMS

The Tacoma School District operated a "schoolwide program" in twenty-one elementary schools, six middle schools, one high school, and two alternative schools. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amount was expended by the Tacoma School District in its schoolwide program. Title I (84.010) expended \$6,061,890.

NOTE 8 – NOT AVAILABLE (N/A)

The Tacoma School District was unable to obtain other identification number.

NOTE 9 – FEDERAL INDIRECT RATE

The Tacoma School District used the federal restricted rate of 4.34%. The following CFDA numbers have a different rate set by the individual grant:

10.553 – 0%
10.555 – 0%
10.559 – 0%
10.582 – 0%
10.665 – 0%
12.xxx – 0%
15.954 - 0%
16.523 – 0%
84.010 – 4.34% or 3.73%
84.013 – 4.34% or 3.73%
84.027 – 4.34%, 3.73% or 0%
84.041 – 0%
84.048 – 4.34% or 3.73%
84.060 – 4.34% or 4.92%
84.173 – 4.34% or 3.73%
84.196 - 3.73%
84.215 – 14.5%
84.33B – 0%
84.365 – 2%
84.367 – 4.34%, 3.73% or 4.92%
84.377 - 0%
84.388 - 3.73% or 4.34%
93.500 – 0%
93.600 – 10% & 8%

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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